RIDLEY Inc.

2004 Annual Report

Ridley Inc. Profile

Ridley Inc. is one of the largest commercial animal nutrition businesses in North America serving customers mainly in the United States and Canada. Ridley manufactures and/or distributes a full range of animal nutrition products including formulated feeds, premixes, supplements, low moisture blocks, animal health products, feed ingredients, animal care and livestock handling equipment.

Ridley's customers include livestock breeders and growers who produce meat, dairy and poultry products that are processed into consumer food products, as well as consumers who own or breed animals for recreational or companionship purposes. We create value for our customers by helping them to be more profitable in their own businesses through applied animal science and production technology.

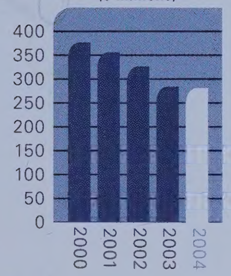
Ridley's operations in the United States include 31 mills with an annual production capacity of 1,675,000 tons (1,520,000 metric tonnes) of feed. Its Canadian operations comprise 15 mills with annual production capacity of 905,000 metric tonnes. Ridley's products are marketed under a number of highly regarded trade names, including Hubbard Feeds, Feed-Rite, Wayne Feeds, Ridley Block Operations, Ridley Feed Ingredients, Ridley Specialty Products, Daco Western Canada, Farmix, McCauley's®, CRYSTALYX® and Sweetlix®.

Ridley's strategy for increasing shareholder value is to build on its leadership position in commercial animal nutrition markets, and to develop growth opportunities that meet its profitability and investment return objectives as a high-quality, efficient producer.

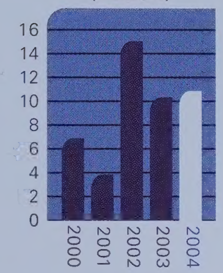
Ridley Corporation Limited, Australia's largest livestock feed manufacturer, owns approximately 70 percent of Ridley Inc.'s outstanding shares.

Table of Contents

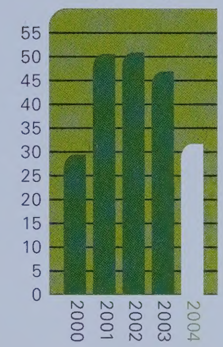
TOTAL ASSETS
($ millions)



NET EARNINGS
($ millions)



EBITDA*
($ millions)

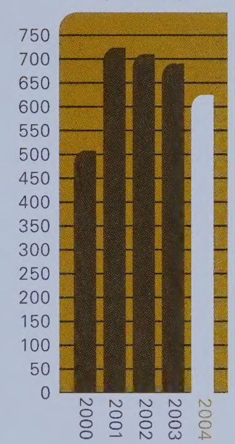


* Earnings before interest, taxes, depreciation and amortization.

EBITDA and Revenue include the results of discontinued operations to date of disposition.

Operating Highlights

REVENUE
($ millions)



Sweetlix Acquired in July 2004

Ridley acquired the assets and feed supplement business of Sweetlix, LLC for US$16.7 million just after the fiscal 2004 year-end. The addition of the Sweetlix® line of feed supplement blocks enhances Ridley's sales presence and distribution system in the southern and eastern U.S., and makes Ridley one of the largest manufacturers of free-choice feed supplement blocks in North America.

Heartland Business Acquired

In August 2003, Ridley acquired the assets and business of Heartland, Inc. in Bismarck, North Dakota, allowing Ridley to better serve its customers in North Dakota and parts of Montana and South Dakota. Heartland is also a key distribution point for Ridley's Low Moisture Blocks in the upper Midwest.

Equine Production Facility

Ridley's Equine Business Unit began construction in fiscal 2004 of an all-equine feed manufacturing facility in Chambersburg, Pennsylvania. Construction is progressing well, and when online by the end of November, the plant will produce superior equine feeds and nutritional supplements for the Mid-Atlantic states of Pennsylvania, Maryland, New Jersey, and Delaware.

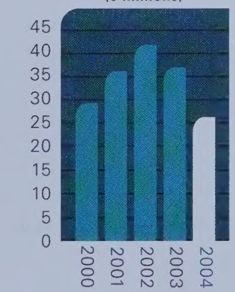
New Products Launched

Several new products were introduced in fiscal 2004. Ridley Block Operations launched three new products, IONO-LYX® B300, the first ever FDA-approved Low Moisture Block with an ionophore, CRYSTALYX® Buffer-lyx™, a Low Moisture Block used as a free-choice dietary buffer for dairy cows, and Equine HP™ Performance Bar, a nutrient dense feed supplement for horses. Ridley Feed Operations introduced PROVISION, a research-proven, performance-tested, flexible piglet nutrition program.

Bank Debt Reduced

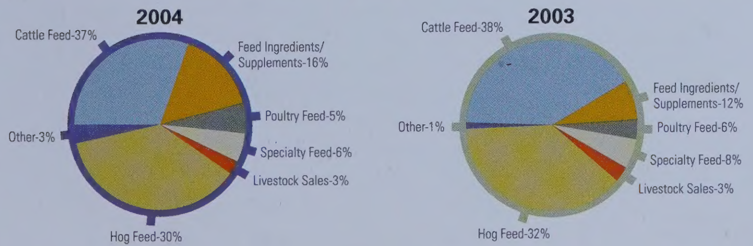
Cash flow from operations was $26.6 million in 2004, and total bank debt was reduced from $75.9 million in 2003 to $55.7 million in 2004. Bank debt to total capitalization has been reduced to 28%.

CASH FLOW*
($ millions)

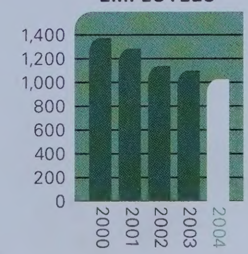


* Cash flow generated from operations before changes in non-cash working capital.

SALES BY PRODUCT LINE - FISCAL 2004 AND 2003



EMPLOYEES



Chairman's Report

Dr. J.S. Keniry | Chairman

Several new products were introduced in fiscal 2004 and received an enthusiastic reception in the marketplace

RIDLEY Inc.

Ridley faced a very demanding operating environment in fiscal 2004, as a wide range of external factors combined to significantly impact our results. Production economics were weak for Ridley's customers in most sectors of our business. Weather patterns were not conducive for beef feed sales, and a number of regulatory issues, each with the potential to affect our business seriously, created concern for our customers and for us.

Our response to such adversity is to maintain our focus on the basics: providing superior products and outstanding service to our customers, keeping a tight rein on costs, ensuring an optimal allocation of our capital resources, anticipating changes in the marketplace and being prepared to manage the effect of such changes.

Bob Gallaway and his team will report on Ridley's results and its efforts to maintain a competitive edge in the following pages, but I take a particular interest in the Company's program of research & development, and I am pleased to say that Ridley's well-known commitment to research & new product development continued in fiscal 2004, generating some very tangible rewards.

Several new products were introduced and received an enthusiastic reception in the marketplace. Ridley Block Operations launched three new products in fiscal 2004, IONO-LYX® B300, the first ever FDA-approved Low Moisture Block with an ionophore, CRYSTALYX® Buffer-lyx™, a Low Moisture Block supplement used as a free-choice dietary buffer for dairy cows, and Equine HP™ Performance Bar, a nutrient dense feed supplement for horses. Ridley Feed Operations introduced PROVISION, a research-proven, performance-tested, flexible piglet nutrition program. In addition, one of McCauley's existing products, Alam®, a beet pulp based equine feed, was named the nutritional product of the year by *Horse Journal* magazine.

Each of these products was a success in the marketplace, addressing a specific need in a different segment of the market, and raising Ridley's profile for the entire range of our product offerings. Ridley's impressive Nutrition Services group is developing other innovative products and nutrition programs for introduction in the near future, providing our customers with a product range and technical support that is unsurpassed in the feed industry.

Ridley is building on the strength of its existing management team, assuring stability and continuity, and enhancing its ability to succeed in a very competitive operating environment

One of the most important accomplishments for 2004 is the succession plan developed by the Board of Directors for Ridley's management team. Bob Gallaway has been Ridley's President and C.E.O. since June 2000, and his experience and dedication have been instrumental in guiding Ridley through some very challenging years. In many respects, Ridley's successes in this tough environment reflect the strength and expertise of the management team assembled under Bob's capable leadership.

These strengths, and a focused commitment to building shareholder value, will continue when Bob retires in 2005. As announced in a press release on July 14, 2004, Steven VanRoekel, formerly President of Ridley Feed Operations, assumes the position of President effective September 1, 2004. Bob Gallaway will continue as C.E.O. until his retirement.

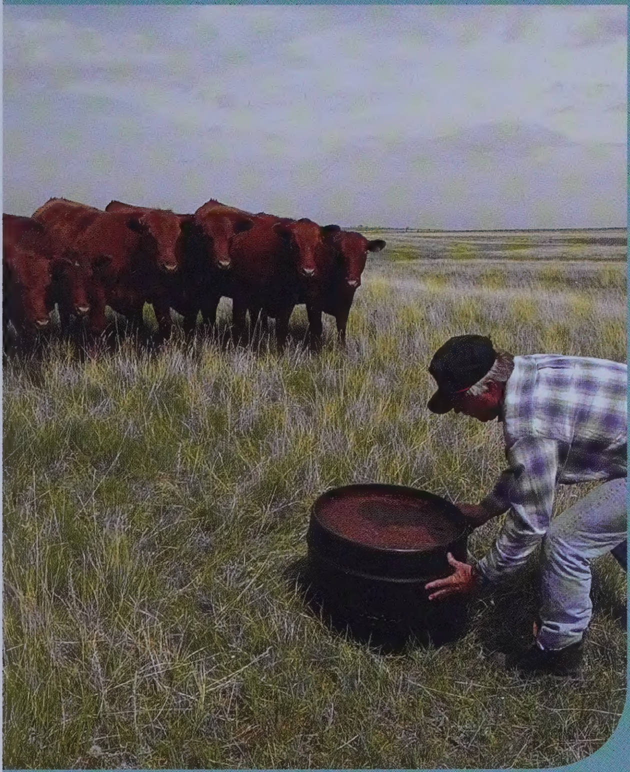


Photo: *CRYSTALYX® Low Moisture Blocks are an effective range management tool, attracting cattle away from riparian areas and resulting in more uniform utilization of forage lands.*

Concurrent with this move, Robert Frost, formerly Executive Vice President of Ridley Inc. and General Manager, Ridley Block Operations, becomes President of a newly formed division known as Ridley Nutrition Solutions, consisting of Ridley Block Operations, the newly acquired Sweetlix® business, the Equine Business Unit and Ridley Specialty Products.

Calvin Martin and Eddie Wells are appointed Executive Vice Presidents of Ridley Inc. and will have Chief Operating Officer-type responsibilities for specific parts of Ridley Feed Operations. Mike Mitchell retains his current responsibilities as Chief Financial Officer.

Rounding out the senior management team, Michael Hudspith, currently General Manager, Ridley Feed Ingredients, has been elevated to Vice President, Ridley Inc. and given a seat on the Executive Committee.

With these changes, Ridley is building on the strength of its existing management team, assuring stability and continuity, and enhancing its ability to succeed in a very competitive operating environment, both for today and the future.

In fiscal 2005, we will continue to pursue our strategic plan, meeting customers' expectations, improving our operating performance, leveraging our core competencies and exploring opportunities to maximize value for our shareholders.

With the commitment and dedication of our employees and our management team, and the guidance of Ridley's Board, we are confident that we will deliver further progress in fiscal 2005, and a high level of value to our shareholders and our customers.

J. S. Keniry

Dr. J.S. Keniry
Chairman

President & Chief Executive Officer's Report

Robert (Bob) B. Gallaway
President & C.E.O.

Ridley continues to generate strong cash flow from operations, allowing us to reduce bank debt

RIDLEY Inc.

Fiscal 2004 proved to be every bit as demanding as 2003 for Ridley. The Company continued to deal with many of the same difficult circumstances that characterized the previous year.

The combination of poor producer economics in most sectors, a weaker U.S. dollar, the ongoing impact of Bovine Spongiform Encephalopathy (BSE) on the North American cattle industry, a reduction in the number of animals on feed, and the after-effects of the USDA Drought Assistance Program, continued to hamper our performance.

Confronted with this list of challenges, our net earnings from continuing operations declined to $12.4 million in 2004 from $23.3 million in 2003. After deducting the losses of the discontinued Cotswold operations, $1.5 million in 2004 and $13.0 million in 2003, we reported net earnings of $10.9 million in fiscal 2004, a slight increase over the $10.4 million reported for 2003. Diluted earnings per share rose by $0.04 to $0.79. Our performance, although certainly not satisfactory, was achieved in the face of a very tough business climate.

Simply put, our customers were hurting through much of the year, and Ridley shared in the hurt. When the economics of livestock production are poor, as they were for most of this past year, livestock producers either leave the field or reduce the size of their herds or flocks, and as a result, Ridley's sales volumes decline. Unfortunately, we also experienced higher costs in some areas over which we have little control – insurance, utilities, freight and regulatory compliance. The details of our operating results are provided in Management's Discussion & Analysis, beginning on page 22 of this report.

Going forward, Ridley's management team is committed to improving the efficiency and profitability of the Company on a long-term basis, attaining the earnings potential of this Company and building an enterprise capable of thriving even in the toughest environment.

A number of initiatives were undertaken in fiscal 2004 that contributed to earnings for the year and for the future. We continued to optimize the allocation of our capital resources during the year, vacating and closing or selling several office, warehouse or retail facilities within the Company, as well as taking advantage of opportunities to increase our plant utilization rates. We are reviewing other facilities for optimization of assets deployed.

One of Ridley's primary goals is to improve profitability by expanding into selected new markets and growth segments

During the year, we refined our inventory and credit management practices, with the objective of reducing funds employed. We reduced inventory levels and dealt with inventory obsolescence issues, resulting in improved inventory turns. Our accounts and loans receivable policies and practices were reviewed and revised, resulting in improvements in receivables outstanding. Ridley continues to generate strong cash flow from operations, allowing us to reduce bank debt by over $20.0 million. All of these steps have helped strengthen our balance sheet and give us the flexibility to finance future growth, whether internally or through acquisitions.

We introduced several exciting new products to the marketplace in fiscal 2004, each of which was very successful and generated significant enthusiasm from dealers and customers. The product launches also produced a spillover effect, increasing customers' interest in Ridley's entire product line, and invigorating the sales team.

Ridley also recognizes the value of investing in our people, and over the past several years we have followed through with several different programs to improve our employees' skill set. This year's training programs are described in the Ridley Feed Operations and Ridley Block Operations sections.

The best way to rebuild sales volumes is to ensure that Ridley provides superior products and outstanding customer service, technical advice and product support. We intend to keep doing that.

One of Ridley's primary goals is to improve profitability by expanding into selected new markets and growth segments. In fiscal 2004 we made significant progress, completing one acquisition during the year and another just after our year-end, and substantially completing construction of an all-equine feed manufacturing facility.

Photo: Ridley's Equine Business Unit is building an all-equine feed facility in Chambersburg, Pennsylvania to serve the growing equine market in the Mid-Atlantic region.

In August 2003 we acquired the assets and business of Heartland, Inc. in Bismarck, North Dakota, a business we knew well because of our involvement with them in a successful feed marketing joint venture. The acquisition included the other half of the joint venture, a feed mill, warehouse and retail farm supplies outlet, as well as grain merchandising and birdseed packaging businesses.

The feed mill is the principal production source for serving Ridley's customers in North Dakota and parts of Montana and South Dakota, and is a key distribution point for Ridley's Low Moisture Blocks in the upper Midwest. The Bismarck business was integrated with our existing operations, allowing us to more effectively serve customers in the region and realize a number of synergies. Its results in the first year exceeded projections.

Just after our fiscal year-end, in July 2004, we acquired the assets and business of Sweetlix, LLC. This initiative positions Ridley as one of the largest manufacturers of free-choice feed supplement blocks in North America, and enhances our sales presence and distribution system in the southern and eastern U.S. The Sweetlix® line of products, including several that are proprietary, broadens the range of our product offerings and the expanded manufacturing capability of the three production plants that came with the acquisition improves our flexibility and adds capacity for future growth.

We also started construction of an all-equine plant in Chambersburg, Pennsylvania during the year, with completion scheduled for late November. The plant will produce superior equine feeds and nutritional supplements under the McCauley brand for the high growth Mid-Atlantic equine markets of Pennsylvania, Maryland, New Jersey and Delaware.

Our block operations expect to benefit from a strong cattle economy, and the exciting new products introduced last year will generate additional earnings

Outlook

The watchword for fiscal 2005 continues to be vigilance. The entire Ridley organization will have to exercise discipline and show strong commitment to our strategic priorities. We face some of the same uncertainties that buffeted our operations during the year – the U.S. - Canadian dollar exchange rate, potentially higher interest rates, the impact of BSE and resulting border closing, and the threat of other disease issues such as avian influenza.

That said, we have a number of reasons for optimism. Our feed operations are strong and are capturing new volume and maintaining reasonable margins. Cost containment efforts started last year will continue to bear fruit. The unusual level of charges for bad debts we incurred in fiscal 2004 will not be a factor in 2005. Our block operations expect to benefit from a strong cattle economy, and the exciting new products introduced last year will generate additional earnings. The Sweetlix® line of feed supplement blocks will have a positive impact on earnings and market share.

Most importantly, we have a strong management team and a dedicated group of employees who have shown their mettle in challenging times. I would like to recognize and thank them for their contributions in a very difficult year, and I look forward to their continued commitment and support in the coming year.

Robert B. Gallaway
President & Chief Executive Officer

Ridley Inc. Operations

Key to types of facilities

- Primary Feed Plants
- Macro Premix Plants
- Retail Store Only
- Micro Premix, Macro Premix, Primary Feed Plant, Retail Store
- Ridley Feed Ingredients
- Sweetlix
- McCauley Bros., Inc.
- Ridley Block Operations

1. Rocky Mountain House, Alberta
2. Rimbey, Alberta
3. Lacombe, Alberta
4. Linden, Alberta
5. Fort Macleod, Alberta
6. Lethbridge, Alberta
7. St. Paul, Alberta
8. Lloydminster, Alberta
9. Swift Current, Saskatchewan
10. Saskatoon, Saskatchewan
11. Humboldt, Saskatchewan
12. Brandon, Manitoba
13. Killarney, Manitoba
14. Manitou, Manitoba
15. Arborg, Manitoba
16. Winnipeg, Manitoba
17. Grunthal, Manitoba
18. Mitchell, Ontario
19. Bismarck, North Dakota
20. Grandin, North Dakota
21. Rapid City, South Dakota
22. Huron, South Dakota
23. Watertown, South Dakota
24. Worthington, Minnesota
25. Alexandria, Minnesota
26. Mankato, Minnesota
27. Beloit, Kansas
28. Columbus, Nebraska
29. Sioux City, Iowa
30. Storm Lake, Iowa
31. Atlantic, Iowa
32. Iowa City, Iowa
33. Bushnell, Illinois
34. Appleton, Wisconsin
35. Hopkinsville, Kentucky
36. Castleton, Indiana
37. Shipshewana, Indiana
38. Botkins, Ohio
39. Lancaster, Pennsylvania
40. Selma, North Carolina
41. Mendota, Illinois
42. Versailles, Kentucky
43. Chambersburg, Pennsylvania
44. Stockton, California
45. Whitewood, South Dakota
46. Worthington, Minnesota
47. Buffalo, Texas
48. Fort Worth, Texas
49. Syracuse, Indiana
50. Montgomery, Alabama

Ridley Feed Operations

Steven J. VanRoekel
Vice-President, Ridley Inc.,
President, Ridley Feed Operations

BSE resulted in a major disruption of normal cattle movement in the U.S.

RIDLEY Inc.

Ridley Feed Operations (RFO) is the business unit resulting from the merging of Ridley's U.S. and Canadian feed divisions in January 2003, bringing the businesses under common management. The rationale for the reorganization was to better leverage the resources of Ridley's business units in both countries, to maximize the benefits of close coordination between our operations and to improve accessibility to technical expertise for our livestock-producing customers. The change emphasizes Ridley's commitment to customer service and reflects the increasingly North American character of our markets.

Most of the process of reorganizing the business was completed in the second half of fiscal 2003, and restructuring continued in the early stages of fiscal 2004. Several functions were reorganized and consolidated in fiscal 2004, including quality assurance, regulatory, technical services, research & development, formulation, marketing, financial services and accounting. The changes have produced a more efficient organization and a uniform approach in each of these disciplines.

Fiscal 2004 Production Economics

Fiscal 2004 was the most difficult operating environment our industry has faced in many years, with an extraordinary number of challenges to meet. Livestock production fundamentals were fragile at the beginning of fiscal 2004, with weak market prices across the board for meat, milk and eggs. As the year progressed, prices gradually improved, although for different reasons.

The two reported cases of Bovine Spongiform Encephalopathy (BSE) in North America, in May and December 2003, had a dramatic impact on the North American beef industry. The U.S. prohibition on live cattle from Canada produced opposite effects on each side of the border. Since a large portion of Canadian production is normally destined for export, primarily to the U.S., the border closing drastically changed the Canadian industry's economics in one fell swoop. Cattle prices collapsed as supply far outstripped slaughter capacity, and although there has been a slight easing of restrictions on beef products, there is still no resolution for the issue, and prices in Canada continue to be severely depressed.

Milk prices rebound in 2004, reaching near-record levels

BSE resulted in a major disruption of normal cattle movement in the U.S. Export markets for U.S. cattle were closed, and similarly, cattle imports from Canada were stopped. Domestic demand remained high, driven by the popularity of the Atkins diet, and with the loss of Canadian supply, beef prices reached record highs. Cow/calf operators took advantage of the record prices by selling off their cows and not retaining their heifers to build up their breeding herd. With cattle in short supply, feedlot operators responded by buying calves at a younger age and feeding them longer.

As reported last year, pork production prices suffered through the longest streak of consecutive months of below break-even prices in North American history, pushing many producers into voluntary liquidation or bankruptcy. The effects of the correction came gradually, and prices finally improved in late spring 2003. The relief was short-lived, as prices dropped below break-even again in August 2003 and didn't recover until February 2004 in the U.S. (April 2004 in Canada). Prices have been very strong for both Canadian and U.S. producers since breaking through their respective break-even points, although the stronger Canadian dollar since early 2003 has reduced returns by almost $20 per head for Canadian producers shipping to the U.S.

Photo: Ridley's Research & Nutrition Services group has formed partnerships with several universities to study nutritional needs of dairy cattle at all stages of their life cycle.

In the U.S., milk prices were below break-even at the beginning of the fiscal year, as the dairy industry followed the recent experience of the pork industry. Small, inefficient producers left the business, and large producers expanded rapidly, leading to an over-supply of milk. However, the Canadian border closing, which restricted imports of replacement stock; a voluntary herd reduction program in 2003; and strong cheese demand all contributed to a rebound in milk prices, reaching near-record levels.

Egg production economics were strong throughout fiscal 2004, with record prices due primarily to two factors: increased consumption fostered by the popularity of the Atkins and other high protein diets, and stricter animal welfare standards, leading to reduced cage densities, lower egg production and consequently, higher prices.

The Canadian dairy and poultry sectors operate under a supply management system, which tends to result in more stability in market prices.

Fiscal 2004 Operating Environment

Aside from the question of market prices for livestock producers, there were a number of other issues that created a sense of uncertainty in the marketplace.

The effects of the prolonged drought of 2001 and 2002 in the U.S. Midwest and Canadian prairie provinces, which were discussed extensively in last year's report, have not been completely eradicated. During the worst of the drought some cattle were moved from the western and midwestern U.S., where Ridley's distribution network is strongest, to better grazing conditions in the southeast, where Ridley's distribution network is not as well established. This leaves fewer cattle to feed in Ridley Feed Operations' traditional geographic markets.

Although moisture conditions have now improved enough to allow grazing lands to recover, several years of drought conditions have left drinking water supplies dangerously low in some areas, and there is continuing potential for further cattle relocation out of Ridley's trading area.

The USDA Drought Assistance Program, introduced in August 2002 and running through January 2003, artificially inflated fiscal 2003 sales volumes while the program was operating, as feed dealers and livestock producers stockpiled substantial inventories of product. RFO's beef feed sales dropped noticeably following expiry of the program, and continued to be adversely affected through fiscal 2004, until the stockpile of feed inventory was consumed by spring 2004.

Apart from the impact of BSE on cattle prices, the longer-term implications are still not fully known. Most export markets have yet to lift their restrictions and the final response of the regulators, in terms of new feed manufacturing standards, has not been announced. This leaves the beef industry on both sides of the border in an uncertain state, anxiously awaiting further developments and clearly worried about the possibility of another case being reported.

There are other regulatory issues as well that are clouding the picture for livestock production. The U.S. Country of Origin Labeling (COOL) provisions that were slated to be implemented on a mandatory basis in September 2004, and which would have a significant impact on the North American beef and pork industries, have been shelved for two years.

In addition, the National Pork Producers' Council has called on the U.S. government to impose a significant countervailing and/or anti-dumping duty on Canadian pork and hog imports, which would have a serious impact on the Canadian pork industry. At the time of writing, the final outcome of these two proposals is still not known, leaving producers, particularly those with operations on both sides of the border, in a quandary.

Producers of meat, milk and eggs are paying much higher costs for energy, utilities, freight and risk management. Feed manufacturers are paying the same higher costs, and coupled with rising prices for feed grains and proteins, the price of feed is also climbing. Although market prices for meat, milk and eggs are currently very bullish, much of the improvement in market prices seen by livestock producers will be lost to higher production costs.

Initiatives and Accomplishments in Fiscal 2004

The recovery in market prices for producers of meat, milk and eggs in fiscal 2004 can be largely attributed to there being fewer animals or birds, coming about by either voluntary or forced liquidation by many producers of their herds or flocks, reducing supply and bringing a correction in prices.

Operating results for Ridley Feed Operations are described and explained in the Management's Discussion & Analysis section of this annual report, but in summary, RFO had fewer animals to feed, which reduced sales volumes. There were also higher expenses in the areas of utilities, freight, insurance and regulatory costs and, as a result of a very tough operating environment, bad debts and legal expenses.

RFO implemented a company-wide program encouraging employees to seek ways of reducing costs, increasing revenues and reducing funds employed

Ridley Feed Operations and the University of Minnesota's Southern Research and Outreach Center (SROC) at Waseca entered into an exclusive long-term research and development partnership

RFO is working very hard on several levels to respond to these difficult conditions. It is clear that livestock producers will continue to consolidate and integrate in order to become more efficient. Larger producers prefer to buy lower inclusion premixes and base mixes and produce their own feed rations, a process leading to excess capacity for manufacturers of complete feeds, already a mature industry.

- In order not to be caught with excess capacity, RFO continually reviews its asset structure to optimize its allocation of capital resources, consistent with its long-term strategy. In fiscal 2004 several facilities were vacated and closed or sold, including a leased plant in Lusk, Wyoming; the retail store in Prince Albert, Saskatchewan; four leased warehouses; a leased office in Lacombe, Alberta; a site in Red Deer, Alberta; and a parcel of land and an office building in Brandon, Manitoba. We are continuing to review other facilities for optimization of assets deployed.
- Ridley Feed Operations recognized the need to remain cost competitive in order to maintain and strengthen its sales volume and market share, and to that end, RFO implemented a company-wide program encouraging employees to seek ways of reducing costs, increasing revenues and reducing funds employed. The project caught the attention of employees, and their many suggestions produced significant improvements, both in fiscal 2004 and for the future. Two examples of the beneficial changes coming as a result of the program are a cost-saving reduction in the Company's fleet of delivery trucks and transferring the packaging line from the Alexandria plant to the Mankato plant, increasing the efficiency of both plants.
- Another project undertaken was to review the Company's inventory and credit management practices, with the objective of reducing funds employed. The project reduced inventory levels and aggressively tackled the problem of inventory obsolescence, resulting in improved inventory turns. Accounts and loans receivable policies and practices were reviewed, and changes were made, resulting in improvements in receivables outstanding.

There were other benefits realized as by-products of the focus on credit management. The Company performed a comprehensive and very thorough study of swine producers, a major component of RFO's business and a sector that has been in financial distress. As a result, the financial services department has been able to develop much better credit profiles and a more thorough understanding of potential risk areas, leading to significantly improved receivables and loan portfolios.

- In August 2003, RFO acquired the assets and business of privately-owned Heartland, Inc. in Bismarck, North Dakota. RFO and Heartland had been involved in a successful feed marketing joint venture for the past ten years. The acquisition included Heartland's 50% interest in the joint venture, a feed mill, warehouse and retail farm supplies outlet, as well as grain merchandising and birdseed packaging businesses.

The feed mill manufactures beef and dairy feed, and is the principal production source for serving RFO customers in North Dakota and parts of Montana and South Dakota. It is also a key distribution point for Ridley's Low Moisture Blocks in the upper Midwest. RFO will be able to serve its customers in the region more effectively and realize a number of synergies by integrating the Bismarck business with existing operations.

Photo: The Swine Technical Team met in Minneapolis in July to discuss goals and strategies for the coming year.

RFO initiated a new training mandate in fiscal 2004, with a full-time head of training and development

RIDLEY Inc.

- In order to improve the product and service offerings for large integrated swine producers, RFO restructured and refocused the approach of the swine national accounts team. The team took a more cost-aggressive approach to product formulation, streamlined logistics for product deliveries and changed from a system of pricing services into the products, to an unbundled service offering. The new approach has generated significant interest from large integrators.

- RFO initiated a new training mandate in fiscal 2004, with a full-time head of training and development and a common training program for the entire organization. A program called SKILL (Sound Knowledge Institute of Livestock Learning) was introduced for Ridley's customers, dealers and salespeople. The program provides technical training and was first rolled out for one hundred key customers in Omaha, Nebraska.

  A new customer service training program, "Feeding Satisfaction," was also introduced. The program is designed to increase employees' focus on maintaining a high level of customer satisfaction. A formal orientation program for new employees, "Base Camp," is being developed.

- Ridley also continues to lead the way in research and new product development. Two new projects undertaken in fiscal 2004 were a research partnership to study nutrition for dairy calves, and introduction of "PROVISION," a new feed program for piglets.

  Ridley Feed Operations and the University of Minnesota's Southern Research and Outreach Center (SROC) at Waseca entered into an exclusive long-term research and development partnership supporting dairy youngstock nutrition, essentially up to six months of age. This initiative builds on two years of successful calf and dairy-beef research trials at Waseca and promises to be a rewarding partnership.

  PROVISION is a research-proven, performance-tested, flexible piglet nutrition program that is scientifically formulated with the highest quality ingredients. No other phase of swine growth and development is as critical as the starter period – from birth to 25 kg body weight. Feeding piglets a high-quality starter diet combined with proper management during this early period can pay substantial dividends in growth rate and in days to market.

  RFO began research on the manufacturing of high quality, high performance piglet starter feeds in an attempt to revolutionize the way it approaches this segment of the swine market. With cooperation from all facets of the business – purchasing, manufacturing, research & development, formulation and nutrition – the end result was the PROVISION line of piglet starter feeds, shown in product demonstration trials to consistently outperform competitive products.

Outlook for Fiscal 2005

The very challenging environment of fiscal 2004 will likely continue through fiscal 2005, despite improving economics in the beef, swine, dairy and poultry sectors. Dramatic changes in recent years in the competitive environment and in regulatory issues will force continued consolidation by livestock producers in a quest for efficiency. Producers have historically rushed to expand their herds and flocks in response to improving market prices, but an abundance of concerning issues, detailed above, will likely cause them to move more cautiously than in the past.

This means that Ridley can't simply wait for the pie to get bigger in order to regain lost sales volumes. RFO will demonstrate its resolve to succeed by adhering to its strategic plan, reinforcing its strengths and correcting its weaknesses.

Aggressive investments will be made to increase RFO's presence in existing growth segments, and to expand into attractive new target segments

RFO's growth will be dependent on a willingness and ability to adapt operations to meet the needs of a customer base that is continuing to evolve. Ridley will maintain a disciplined approach in allocation of its capital resources to ensure it has the right amount of the right type of production capacity situated in the right places. Ongoing cost containment programs and continuing improvements in processes will be sought, in order to provide cost-competitive products to our customers. Aggressive investments will be made to increase RFO's presence in existing growth segments, and to expand into attractive new target segments having significant growth potential.

RFO has instituted several training programs for employees, dealers and customers in order to provide a high level of customer service and generate increased customer satisfaction. These programs will continue. RFO has a wide and deep roster of technical expertise in nearly all segments of animal and poultry nutrition, supplemented by a focused program of research and development. We will continue with significant investments in these areas in order to provide producers with superior nutrition products.

In spite of ongoing challenges in the marketplace, we believe Ridley Feed Operations has the right strategy, facilities, product strength and management team to overcome a difficult operating environment and drive solid financial performance in fiscal 2005.

Photo: RFO's Dairy Services Team works with dairymen such as Kevin Wieneke of the Wieneke Dairy in Adrian, Minnesota to develop feeding programs that improve milk production.

Ridley Block Operations

Robert E. Frost
Executive Vice-President, Ridley Inc.,
General Manager, Ridley Block Operations

The strong finish to fiscal 2004 augurs well for the future

RIDLEY Inc.

Ridley Block Operations (RBO) entered fiscal 2004 with a clear understanding of the challenging operating environment and difficulties it faced in matching fiscal 2003's record levels of sales and profitability.

As expected from the outset, fiscal 2004 proved to be a difficult year. After six consecutive years of setting new records for sales and profitability, a number of external factors combined to deny RBO from achieving a seventh year of sales records.

The most significant of these factors was the prolonged drought of 2001 and 2002 in the U.S. Midwest and Canadian prairie provinces, leading to the introduction of a Drought Assistance Program by the USDA in August 2002. The program ran through January 2003, artificially inflating sales volumes while the program was operating, and allowing feed dealers and livestock producers to stockpile substantial inventories of product. Feed sales slowed appreciably immediately following expiry of the program and continued to be restrained until the stockpile of feed inventory was consumed by the spring of 2004.

Another impact of the drought was that it caused ranchers to move their cattle from the drought-stricken western and midwestern U.S., where Ridley's distribution network is strongest, to better grazing conditions in the southeast, where Ridley's distribution network is not as well established. This left fewer cattle to feed in RBO's traditional geographic markets.

Improved moisture conditions in the summer of 2003 (the beginning of Ridley's fiscal 2004), and mild weather and a lack of snow through most of the winter, resulted in good grazing conditions across much of the western U.S., further reducing demand for feed supplementation.

Additionally, the discovery in May 2003 of Bovine Spongiform Encephalopathy (BSE) in a single Canadian cow resulted in significant disruption for the beef industry, and closure of the U.S. border to live cattle from Canada. Just as expectations were raised for a return to normality, another case of BSE was reported in December in a cow in Washington State. The cow's origins were traced back to a herd in Canada, and the market concerns and uncertainty continued.

In Canada, the impact of BSE was devastating, since a large portion of Canadian production is normally destined for export, primarily to the U.S. The border closing in reaction to the BSE incidents drastically reduced the Canadian industry's exports, profits and options.

Adding the Sweetlix® line of feed supplement blocks enhances Ridley's sales presence and distribution system in the southern and eastern U.S.

The primary effect of BSE in the U.S. has been a major disruption of normal cattle movement. Export markets have been closed off, and similarly, imports of cattle from Canada were stopped. With beef supplies low and continuing strong domestic demand fuelled by the popularity of the Atkins diet, coupled with the loss of Canadian supply, beef prices have been very high. Cow/calf operators took advantage of the record high prices by selling off cows and not retaining their heifers to build up their breeding herd. The short supply of cattle also caused feedlot operators to buy calves at a younger age and feed them longer.

Photo: *In February, RBO introduced IONO-LYX® B300, the first ever FDA-approved Low Moisture Block with an ionophore. The supplement blocks improve the growth rate of cattle by increasing rumen fermentation efficiencies.*

The impact of these changes on RBO is that overall U.S. beef cattle numbers are down and the cattle are spending proportionally more time in feedlots and less time grazing in pastures, dampening demand for Low Moisture Blocks.

All these issues facing Ridley Block Operations were industry-wide problems. The RBO team responded with a stellar effort, continuing to execute its plan, and working to overcome this confluence of adverse circumstances. In the first half of fiscal 2004 RBO was simply unable to match the sales records established in 2003. But from February to June, once the inventory carry-over from the drought assistance program was consumed, and monthly sales totals were not being compared with the drought-assisted 2003 numbers, RBO was able to out-perform its fiscal 2003 monthly volumes.

The strong finish to fiscal 2004 augurs well for the future, as Ridley Block Operations continues to build recognition for the quality of its products. The RBO team responded well to the poor environment for feed supplementation in fiscal 2004, and enhanced its position as the market leader in Low Moisture Block manufacturing, marketing, distribution and research.

New Product Introductions

Ridley Block Operations has established its market leadership position on the strength of its research and new product development. It has been a crucial element in creating and maintaining the market advantage that RBO products enjoy. In fiscal 2004, Ridley Block Operations extended that leadership with its continuing program of research, development and new product launches.

The most significant introduction was the February launch of IONO-LYX® B300, the first ever FDA-approved Low Moisture Block with an ionophore. IONO-LYX® B300 supplement blocks are a free-choice medicated feed supplement for pasture cattle. This exciting new product contains the ionophore Bovatec® (lasalocid sodium), which helps cattle to use energy and protein sources more efficiently, improving the growth of pasture, stocker and replacement beef and dairy heifers. This product is the culmination of more than a decade of research by the technical staff at RBO, and its introduction created a stir in the market. The product, formulation and approved claims are legally protected, giving Ridley Block Operations a clear advantage over competitors.

Another product brought to market after extensive research is CRYSTALYX® Buffer-lyx™, a Low Moisture Block supplement used as a free-choice dietary buffer for dairy cows. Research conducted at the U.S. Dairy Forage Research Center in Wisconsin showed that CRYSTALYX® Buffer-lyx™ Low Moisture Blocks helped to control subacute ruminal acidosis (SARA), a disorder that occurs when the pH is too low in a dairy cow's rumen. This newly designed formulation with patent pending technology was introduced to the market in September 2003, and has been demonstrated to result in increased milk production and dry matter intake for high producing, lactating dairy cows. RBO plans to combine the research findings and actual producer results in a video to promote its dairy product line.

Together, IONO-LYX® B300 and CRYSTALYX® Buffer-lyx™ Low Moisture Blocks have been very well received in the marketplace, helping to increase sales tonnage and profitability in fiscal 2004. Their introduction generated a high degree of interest in the entire line of Ridley Block Operations products, and will continue to contribute to increased sales in the coming years.

The product launch for the eight-ounce Equine HP™ Performance Bar also took place in September 2003. The Equine HP™ Performance Bar is a nutrient dense feed supplement in a bar form, developed for the equine market. It provides supplemental nutrients to boost endurance and relieve stress, and this exciting new product with a "portion-controlled" concept has established an entirely new category for equine nutrition.

Marketed through feed distributors in the equine-rich areas of the U.S., it has been very favorably received by the equine community. To meet the growing demand, RBO is planning on making it available through animal health and tack supply outlets, as well as by e-commerce.

Each of the new products launched in fiscal 2004 will be consumed on a year-round basis. Traditionally, Low Moisture feed supplement blocks were a cyclical product, with greatest consumption being by beef cattle in the colder seasons. The new product offerings address the dairy and equine markets as well, and will help to even out the seasonality of RBO's business, providing increased production efficiency and better use of resources.

Sweetlix Acquired in July

Subsequent to the end of the fiscal year, on July 23, 2004, Ridley announced the signing of a definitive agreement to acquire the assets of the livestock feed supplement business of Sweetlix, LLC for US$16.7 million, making Ridley one of the largest manufacturers of free-choice feed supplement blocks in North America. Sweetlix includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas.

The acquisition provides Ridley with expanded manufacturing capabilities that will improve Ridley's flexibility and provide additional capacity for future growth. Ridley Inc. now has the capability to manufacture Low Moisture Blocks, pressed blocks, poured blocks and bagged minerals for beef, dairy, equine, bison, wildlife, sheep and goats.

The addition of the Sweetlix® line of feed supplement blocks enhances Ridley's sales presence and distribution system in the southern and eastern U.S., and further strengthens Ridley's ability to fully utilize its extensive research activities to develop and market free-choice supplements. The combined volume of Sweetlix and

RBO's history of industry-leading research and development provides a solid foundation for growth

Ridley now provides the most extensive range of free-choice supplement product options in the industry

the existing RBO business provides a number of opportunities to develop synergies, including increased purchasing power for raw materials, packaging and marketing. RBO and Sweetlix will be managed as separate business operations.

The Sweetlix® brand name has been in existence for more than forty years and has pioneered many livestock nutritional innovations. The company has developed several U.S. Environmental Protection Agency (EPA) and Food and Drug Administration (FDA) approved products, which are proprietary to Sweetlix® and are an important component of the transaction. Obtaining EPA and FDA approvals for such products can be a time-consuming and expensive process.

The addition of Sweetlix® feed supplement blocks creates a stronger product mix, giving producers the flexibility to supplement their nutrition programs with a wider variety of product alternatives to meet the requirements of varying livestock management and production methods. Ridley now provides the most extensive range of free-choice supplement product options in the industry.

Outlook

Fiscal 2004 presented Ridley Block Operations with a very challenging business environment. However, RBO is expecting that the issues that negatively affected RBO in fiscal 2004 will be gradually corrected as the beef industry returns to a more normal business pattern.

The lure of near-record prices in the past year kept producers from retaining heifers to re-build their herds, but it is a necessary step in the cattle cycle, and beef cow numbers should begin to recover during the coming year. The severe drought conditions are slowly being alleviated, and beef producers will again move their cattle to grazing lands in the western and midwestern U.S.

The fallout from the BSE-related border closing still leaves some uncertainty in the marketplace, but as government agencies work out an agreed-upon protocol, we anticipate that export restrictions will be slowly eased, providing a modest recovery for Canadian beef producers and greater stability for the U.S. industry.

The recent acquisition of the Sweetlix business provides Ridley Inc. with product lines that can now provide the livestock producer with several feeding options. Ownership of Sweetlix and Ridley Block Operations will enable Ridley Inc. to realize a number of synergies, and most importantly, provide our customers with the most extensive range of free-choice supplement products in the industry.

An important key to Ridley Block Operations' success is its well-trained and knowledgeable workforce. In fiscal 2005, Ridley Block Operations will continue its commitment to employee training as a way of maintaining its leadership in the low-moisture block market. A leading training organization has been contracted to optimize performance of RBO staff, particularly in the areas of customer acquisition, retention and increasing market share.

With relatively strong economics for livestock producers and with a more comprehensive array of products to meet our customers' needs, Ridley Block Operations expects improved performance in fiscal 2005. RBO's history of industry-leading research and development provides a solid foundation for growth, focusing on the development of new products that will address the needs of a wider range of species, and helping to reduce the seasonality of our business. RBO's technical staff is working on other breakthrough products to be introduced soon that will further distance us from our competition.

Photo: RBO is committed to having the safest ingredient profile in the industry. All of its production facilities have earned FCI certification for compliance with the FDA's mammalian protein regulation.

McCauley Bros., Inc.

Dr. Dennis B. Longmire | C.E.O.

Ridley's equine nutrition business, McCauley Bros., Inc., delivered another solid year in fiscal 2004, with strong increases in sales volumes and sales revenues.

Ridley acquired a majority interest in McCauley Bros., Inc. in April 2002 as the first step in its strategic plan to create a new equine business unit focused exclusively on equine nutrition and specialty products.

McCauley produces premium quality equine feeds and nutritional supplements in a state-of-the-art plant in Versailles, Kentucky, in the heart of one of the largest concentrations of Thoroughbred and Standardbred horses in America. McCauley's strength lies in its reputation as the pre-eminent leader in equine nutrition.

Ridley's strategy is to develop a significant presence in equine nutrition, an important market segment that offers considerable growth opportunities. Using the highly successful McCauley model, Ridley intends to expand its reach into other areas of North America that have large horse populations, and owners who are seeking the very best nutritional products for their animals.

RIDLEY Inc.

The Equine Business had three basic goals for fiscal 2004:

- Continue to aggressively expand McCauley's business from its Versailles plant.
- Construct a new all-equine plant on Ridley property in Chambersburg, Pennsylvania.
- Introduce McCauley products and the McCauley approach to equine nutrition to the equine market within striking distance of Chambersburg (the Mid-Atlantic region).

Despite a rainy Kentucky summer in 2003 and a rainy, mild fall, which provided an abundance of grass for pasture, thus reducing the need for supplemental feed, McCauley's sales volume grew by 6.8% in fiscal 2004. This increase resulted in a plant record for tonnage produced, and came on top of a 13% volume growth in fiscal 2003.

Premium quality oats were in short supply and prices were extremely high early in fiscal 2004 because of the effects of the 2001 - 2002 drought in western Canada. Improved moisture conditions in the summer of 2003 produced a good oat crop, and prices returned to more normal levels for the balance of fiscal 2004. Unfortunately, soybean meal prices sky-rocketed late in fiscal 2004 because of a perceived shortage of beans in the U.S. Overall, the higher ingredient costs compressed margins and profitability for fiscal 2004.

In fiscal 2003 McCauley identified the Mid-Atlantic states – Pennsylvania, Maryland, New Jersey, and Delaware – as offering the most potential for growth, and began construction in fiscal 2004 to build an all-equine plant in Chambersburg, Pennsylvania. Construction is progressing well, and when online by the end of November, the plant will operate under McCauley management and stringent manufacturing controls to produce superior McCauley feeds and nutritional supplements.

During fiscal 2004, McCauley introduced the Mid-Atlantic market to equine products manufactured at its Versailles plant and shipped into the region. This is the first time a truly premium horse feed has been offered in this market, and acceptance of the McCauley product line and quality programs has been excellent.

Dealer interest is very strong, and to establish Chambersburg quickly in the market and drive its growth, McCauley has partnered with new dealers in Maryland, Virginia and Delaware, each with a significant market share. McCauley will continue converting large dealerships to its product line, and at the same time create a pull-through demand for the products by working with individual horse farms.

The marketing program has been helped immensely by independent recognition of the quality of McCauley products. McCauley's Alam®, a beet pulp based product with high fat and fiber content, received the honor of being named the nutritional product of the year by *Horse Journal* magazine. Two years ago, McCauley's Rice Bran Oil was also named product of the year. These two products have attracted many new customers to McCauley's product line.

In addition to building the new Chambersburg plant, the existing showroom was refurbished and re-opened as an equine retail store in January. The store introduced McCauley products to the region's equine community and is drawing good traffic and much interest.

Photo: McCauley Equine Center opened in Chambersburg in January, generating good traffic and significant interest among horse owners in the area.

Another McCauley accomplishment in fiscal 2004 was development of a proprietary computer program to monitor the growth of foals and compare their growth curve to that of the norm. The program, known as "On Track," is currently being field-tested and will be ready for general use in fiscal 2005.

Outlook for Fiscal 2005

In general, the U.S. equine industry is very healthy, and horse numbers are good. Recent Thoroughbred auctions produced many record prices, and it appears that Kentucky has finally recovered from the effects of mare-reproductive-loss syndrome.

Legislation was recently passed in Pennsylvania to allow slot machines at racetracks, with a portion of the revenue used to increase purses and upgrade track facilities. This is expected to provide a boost to the equine industry, and we expect Maryland and Kentucky to follow suit with similar legislation.

McCauley was successful in fiscal 2004 in establishing market awareness for McCauley products in the Mid-Atlantic market. When the Chambersburg plant starts production in November, the immediate challenge will be to generate additional sales tonnage as quickly as possible, to get Chambersburg off to a good start, as well as for the Versailles plant to replace the production tonnage that it transfers to Chambersburg.

Once that challenge has been met, we will focus on identifying other attractive markets with the potential to accept and support McCauley's line of premium quality equine feeds and nutritional supplements. On an ongoing basis, we continue to seek investments in complementary products or processes for our existing McCauley line.

Ridley Inc. Board of Directors

J.S. Keniry, BSc, PhD, FTSE, FRACI, FAICD
Chairman, Age 61

Director and Chairman since 1997. Director of Ridley Corporation Limited, Australia, since 1990 and its Chairman since March 1994. Presently Chairman/Director of a number of other Australian statutory bodies and companies. Past-President, Australian Chamber of Commerce and Industry; Fellow of the Royal Australian Chemical Institute, Australian Academy of Technological Sciences and Engineering, and the Australian Institute of Company Directors.

J.C. Brown, BSA, MSc, PAg, FAIC
Non-Executive Director, Age 75

Director since May 1997. Since 1996, Principal, J.C. Brown Consulting Services. Currently, Business Manager, EPB Environmental Services Ltd. Formerly Vice-President, Marketing with Feed-Rite Ltd. and earlier held a senior position with the Canadian Wheat Board. Former National Director of the Agricultural Institute of Canada and Past President of the Manitoba Institute of Agrologists. Actively involved in western Canada's agri-business sector for 50 years.

RIDLEY Inc.

R.L.M. Dawson, MA
Non-Executive Director,
Age 69

Director since May 1997. Principal of Fulcrum Associates, a Winnipeg consulting firm specializing in value-added agriculture and sustainable development. Held senior management positions with Cargill in Europe, South America and Canada, including responsibilities for grain marketing, the feed industry, the seed business, and corporate affairs. Chairman of the Winnipeg Commodity Exchange, 1978. Served on Canada's Agricultural Advisory Committee to the "Uruguay" GATT Round and on the Economic Innovation and Technology Council of Manitoba.

L.J. Martin, PhD
Non-Executive Director,
Age 59

Director since May 1997. Chief Executive Officer of the George Morris Centre since 1998, formerly Director of Research since its inception in 1990. Previously Professor and Chair, Department of Agricultural Economics and Business, University of Guelph. Has extensive experience in competitiveness and trade issues and has facilitated the strategic visioning, planning, and development of strategic alliances for many organizations.

M.P. Bickford-Smith
Non-Executive Director,
Age 44

Matthew joined Ridley Corporation in November 2000. His previous responsibilities included overseeing the Man Group's interests in the Australian refined sugar industry, managing risk for the Group's sugar businesses within the Asian region and working in soft commodities, particularly in proprietary trading, structured financing and marketing.

Management's Discussion and Analysis

M.S. Mitchell | Chief Financial Officer

The financial data has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) unless otherwise stated and is in Canadian dollars unless otherwise stated.

The following discussion and analysis should be read in conjunction with the Company's financial statements that appear on pages 35 to 55 of this report. Unless otherwise indicated, references to years refer to the Company's fiscal years ending June 30.

Results of Operations

Overview

Ridley Inc. ended fiscal 2004 with a slightly improved bottom line over the previous year but there were many significant items impacting the industry, the Company internally, and ultimately the results. Beef, swine, egg and milk producers in the U.S. saw higher prices for their respective products. This was especially critical to swine and dairy producers after suffering long periods of low prices. Despite record production, pork prices were comfortably above break-even for most producers. Record beef prices, export restrictions on poultry due to avian influenza concerns and high demand combined to drive a very strong pork demand. In the U.S., the BSE situation and the related ban on most U.S. beef exports did not drastically impact the domestic producer. Excess supplies were offset by the reduction of Canadian beef imports. The Canadian beef producers, however, are in a precarious position as the U.S. and other countries continue their restrictions on the importation of most Canadian beef. Canada is a net exporter of beef, with the U.S. being its key beef consumer. Due to export restrictions, the total number of cattle in Canada has grown. On both sides of the border, producers faced increased costs as feed grain prices rose dramatically over the last few months of the fiscal year. Higher feed costs and increased transportation costs have cut into producer profits.

While external producer economics described above generally had a negative impact on results, there were a number of internal accomplishments that were positive and better positioned the Company for the future. The Cotswold divestiture plan that was outlined a year ago continued on time and met all financial expectations. The plan is substantially complete at the end of the fiscal year, reducing the Company's exposure to the price risks associated with commercial pork production. The reorganization that was announced for the feed operations in North America has met expectations and now allows the Company to leverage the resources of Ridley's business units in Canada and the U.S. The process of reorganization, other cost containment efforts and margin improvement initiatives have helped to offset the negative industry situation and will put us in a better position going forward. The acquisition of our Bismarck joint venture partner was completed in August 2003 and its operating results for fiscal 2004 have exceeded expectations.

Earnings in the U.S. Division were off significantly from the prior year mainly due to volume declines. The mild winter in the Midwestern U.S. and carry-over inventories in the U.S. from the drought assistance program reduced both Low Moisture Block sales and seasonal beef feed sales in the U.S. Beef feed sales were also reduced as higher U.S. cattle prices pulled

forward live cattle sales to feedlots by cow/calf operators, reducing the number of cattle on pasture. Canadian feed sales volumes were negatively impacted by the BSE incidents, with lower Canadian cattle prices resulting from the border closure and feed exports to the U.S. also being temporarily restricted because of concerns over prohibited animal protein products. In addition to the impact of declining volumes, expenses were higher in the areas of insurance and bad debts in the U.S. and Canada. Ingredient markets over the course of the year were generally favorable to results in both the U.S. and Canada. The U.S. recorded a significant charge relating to a loan impairment. A partial provision was taken in the prior year and the remaining balance recorded in the current fiscal year. The weakening U.S. dollar against the Canadian dollar from one year ago also had an approximate $2.5 million after-tax negative impact on results. The net earnings of $10.9 million for the year resulted in significant cash flow, allowing the Company to continue its debt repayment program for a fourth consecutive year.

The following table summarizes the Company's operating results for fiscal 2004 and fiscal 2003.

Division Earnings Recap 2004 with 2003 Comparative (in C$000)

	Canadian Division		U.S. Division		Unallocated		Total	
	2004 ($000)	2003 ($000)	2004 ($000)	2003 ($000)	2004 ($000)	2003 ($000)	2004 ($000)	2003 ($000)
Revenue	**169,046**	184,991	**440,762**	479,569	**–**	–	**609,808**	664,560
Cost of sales	**138,994**	153,638	**354,863**	376,362	**–**	–	**493,857**	530,000
Gross profit	**30,052**	31,353	**85,899**	103,207	**–**	–	**115,951**	134,560
	17.8%	16.9%	**19.5%**	21.5%	**–**	–	**19.0%**	20.2%
Operating expenses								
Selling, G&A	**20,293**	18,674	**56,617**	56,477	**3,698**	4,539	**80,608**	79,690
Amortization	**2,171**	2,083	**8,051**	8,743	**239**	373	**10,461**	11,199
Research & development	**10**	84	**1,298**	975	**–**	–	**1,308**	1,059
	22,474	20,841	**65,966**	66,195	**3,937**	4,912	**92,377**	91,948
Operating income	**7,578**	10,512	**19,933**	37,012	**(3,937)**	(4,912)	**23,574**	42,612
Interest expense							**5,138**	6,662
Loss on the sale of investment							**–**	684
Other income, net							**(1,245)**	(1,873)
Net earnings before the following							**19,681**	37,139
Provision for income taxes							**7,139**	13,692
Minority interest share of net earnings							**114**	105
Net earnings from continuing operations							**12,428**	23,342
Attributed to discontinued operations							**(1,531)**	(12,992)
Net earnings for the year							**10,897**	10,350
Total assets – continuing operations	**84,047**	86,781	**190,287**	183,142	**6,920**	9,152	**281,254**	279,075
Property, plant and equipment & goodwill – continuing operations	**49,040**	49,691	**125,313**	120,278	**56**	–	**174,409**	169,969
Total assets – discontinued operations	**–**	–	**–**	–	**5,026**	9,551	**5,026**	9,551

"Operating income" as described above does not have a standardized meaning prescribed by Canadian GAAP, therefore it is not readily comparable to similar measures presented by other companies.

Income From Operations

On a consolidated basis, revenue from continuing operations for 2004 decreased by $54.8 million, to $609.8 million compared with $664.6 million in 2003.

Cost of sales decreased by $36.1 million, to $493.9 million compared with $530.0 million in the previous year. Gross profit for 2004 of $116.0 million was $18.6 million or 13.8% lower than the 2003 total of $134.6 million. As a percentage of revenue, the gross profit decreased from 20.2% in 2003 to 19.0% in 2004.

Total operating expenses, including selling, general and administrative expenses, amortization, and research and development, were $92.4 million for the year, or $0.5 million higher than the 2003 total of $91.9 million. Ridley's operating income of $23.6 million was $19.0 million lower than the $42.6 million recorded in 2003.

Net earnings in fiscal 2004, net of a $1.5 million loss on the discontinued operations of Cotswold, were $10.9 million, compared with reported net earnings of $10.4 million in 2003. Fiscal 2004 also includes a write-off of $6.2 million, which is the balance of the impaired loan that was disclosed in 2003. Reported net earnings in 2003 include a $13.0 million loss on Cotswold discontinued operations. Fiscal 2003 also includes a write-off of $0.7 million for an impaired limited partnership and a provision of $3.4 million for impaired loans receivable, both relating to swine production customers.

The following discussion of division results provides a more detailed analysis of these changes.

Canadian Division

Ridley's Canadian Division consists of feed mills and retail stores operating as Feed-Rite, Daco and Farmix. The acquisition of Shamrock Feeds Ltd., a single mill located in Saskatchewan, was completed during the prior fiscal year and integrated with the Feed-Rite business. The Shamrock acquisition is performing as planned.

Operating income of the Canadian Division decreased by $2.9 million to $7.6 million in 2004, from $10.5 million in 2003. The decrease was due to a combination of less volume and increased expenses, primarily in the areas of insurance and bad debts, offset partially by improved margins. The BSE case in Canada that closed the U.S. border for cattle and beef products is still impacting beef feed sales. The border was reopened for certain beef products but is still not open to live animals.

Canadian revenue decreased by $16.0 million, or 8.6%, from $185.0 million in 2003 to $169.0 million in 2004. This is the result of a volume decline of 5.7% from the prior year. A planned transition to more sales of low inclusion products, such as premixes and supplements, and less reliance on sales of complete feeds in Canada was a factor in the reduced volumes. Cost of sales decreased by $14.6 million to $139.0 million, compared with $153.6 million 2003. The volume decline and lower commodity prices in the Canadian feed division drove the decrease in cost of sales. Sales on a dollar basis are not an accurate measurement of Ridley's feed businesses as they are affected by fluctuating commodity prices.

Gross profit decreased by $1.3 million, or 4.1%, to $30.1 million in 2004 from $31.4 million in 2003. As a percentage of revenue, gross profit increased to 17.8% in 2004 from 16.9% in 2003. The Canadian feed division showed a higher net margin per tonne of feed sold due to a more profitable product mix, with more sales of higher margin, low inclusion products such as premixes and supplements.

Total operating expenses increased by $1.7 million, to $22.5 million in 2004 from $20.8 million in 2003. Selling and general and administrative expenses increased by $1.6 million, to $20.3 million in 2004 from $18.7 million in 2003. This was due to an average 3% increase in wages and benefits, and increased insurance and bad debt expense.

U.S. Division

The U.S. Division consists of U.S. Feed Operations, Ridley Block Operations and the McCauley Equine Operations. The U.S. Feed Operations showed reduced earnings with the volume declines from the previous year. Beef feed sales and Low Moisture Blocks were impacted by the mild winter in the U.S., carryover non-fat dry milk (NDM) inventories from the prior year, and higher U.S. cattle prices, which pulled forward live cattle sales. Ridley Block Operations has a strong position in the low moisture block market in the U.S. with a production share of more than 50%. The block operations were, however, negatively impacted during the current year due to weather, BSE, unstable markets, and NDM carryover inventory from the previous year. The McCauley equine operations were impacted early in the year by soft volumes as a result of excellent pasture conditions.

Operating income for the U.S. Division decreased by $17.1 million, or 46.2%, to $19.9 million from $37.0 million in 2003. The decrease was due to a weakening of the U.S. dollar against the Canadian dollar from the prior year, negatively impacting results by approximately $5.0 million, a $6.2 million charge for impaired loans receivable in the feed operations, and the volume declines for both the block and feed operations as described above. Overall margins for the U.S. showed a decline from 21.5% in 2003 to 19.5% in 2004.

The U.S. Division revenues decreased by $38.8 million, or 8.1%, to $440.8 million in 2004 from $479.6 million in 2003. Sales tonnage decreased by 9.3% in the U.S. feed operations and 16.6% in the Ridley Block Operations. In addition to the volume decline, declining commodity prices, along with product mix changes, impacted

sales dollars. Sales on a dollar basis are not an accurate measurement of Ridley businesses as they are affected by fluctuating commodity prices.

Gross profits for 2004 decreased by $17.3 million, or 16.8%, to $85.9 million from $103.2 million in 2003. The gross margin decline is mainly due to the decline in sales volumes.

Total operating expenses decreased by $0.2 million, or 0.3%, to $66.0 million in 2004 from $66.2 million in 2003. The weakening U.S. dollar reduced reported operating expenses of the U.S. Division when its U.S. dollar-denominated expenses were converted to Canadian dollars for financial statement purposes. Overall Selling, G&A costs were flat, although bad debt and insurance costs were higher, but offset by savings in other areas from cost containment efforts put in place throughout the year. Included in operating costs is a $6.2 million charge for an impaired loan receivable. The account was partially reserved in the prior year and is completely reserved as of the end of fiscal 2004.

Amortization decreased by $0.6 million to $8.1 million compared to $8.7 million in 2003.

Research and development costs increased by $0.3 million, to $1.3 million from $1.0 million in 2003, due to expanded research efforts mainly in the area of swine and dairy feeds.

Cotswold Division/Discontinued Operations

Since 1998, Ridley incurred significant and sustained losses in its swine genetics business. These losses stemmed primarily from the swine price crisis of 1998, the prolonged impact of Foot and Mouth Disease and Classical Swine Fever in Europe, and recently, a long period of below break-even hog prices in North America. The Company took steps to improve its swine genetics operations by restructuring and streamlining the North American operations and by divesting the Cotswold European business in 2002. In spite of these efforts, the North American business was unable to overcome the poor swine production economics; therefore, the Company took action to divest its remaining swine genetics business.

On September 23, 2003, the Company sold key assets of its North American swine genetics business (Cotswold Swine Genetics) to a genetics company for total consideration of $3.8 million. The Company committed to maintain certain swine production on a sub-contract basis for a period of one year. The remaining facilities were sold to various swine producers during fiscal 2004. The wind-down is scheduled to be complete by September 30, 2004, with no material losses expected.

Losses of $1.5 million after income tax benefits were recorded on the discontinued operations in fiscal 2004. In fiscal 2003, these losses totalled $13.0 million, of which $9.2 million was an after-tax charge on asset impairments related to the North American business.

Unallocated Costs

Unallocated costs decreased by $0.9 million in 2004. Fiscal 2003 included unusually high legal and professional fees that were not incurred in the current year.

Other Income, net

Other income consists primarily of interest received on loans and accounts receivable from third parties. Other income was $1.2 million in fiscal 2004, down from $1.9 million in fiscal 2003. The interest received on loans decreased in 2004 due to reduced loan levels and declining interest rates.

Loss on Investment

Fiscal 2003 operating results include a write-down of $0.7 million in an investment in a limited partnership that was involved in commercial swine production. Depressed swine market prices resulted in the operation incurring substantial losses, and under the terms of the organization plans for the limited partnership, Ridley's investment position was substantially diluted.

Interest

Interest expense decreased by $1.6 million, or 23.9%, to $5.1 million from $6.7 million in 2003. This was a result of a reduction in debt. The total debt was reduced from $75.9 million at the beginning of the fiscal year to $55.7 million at year-end.

Income Taxes

Income taxes, as a percentage of net earnings before income taxes, decreased from 36.9% in 2003 to 36.3% in 2004.

Net Earnings for the Year

Net earnings for the year increased by $0.5 million, from $10.4 million in 2003 to $10.9 million in 2004. Net earnings from continuing operations decreased by $10.9 million, from $23.3 million in 2003 to $12.4 million in 2004. Diluted earnings per share for fiscal 2004 were $0.79, an increase from diluted earnings per share of $0.75 in 2003.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares, with no par value. The number of shares outstanding at June 30, 2003 was 13,660,100. In fiscal 2004, an additional 67,200 shares were issued under the Company's stock option plan. The number of shares outstanding at June 30, 2004 was 13,727,300.

The following stock options to purchase common shares were outstanding as of June 30, 2004:

Date granted	Exercise price	Vesting date	Expiry date	Number outstanding
Sept. 3, 1998	$10.65	Sept. 3, 2000	Sept. 3, 2004	127,500
Dec. 1, 1999	$6.50	Dec. 1, 2001	Dec.1, 2005	125,600
Nov. 6, 2000	$5.38	Nov. 6, 2002	Nov. 6, 2006	176,000
				429,100

All options are fully vested and are subject to the terms and conditions set out in the stock options agreement.

Selected Annual Information

Fiscal Year	2004	2003	2002
Revenue ($000)	**609,808**	664,560	663,543
Income from continuing operations ($000)	**12,428**	23,342	27,375
Income from continuing operations – per share			
– Basic	**$0.91**	$1.73	$2.04
– Fully diluted	**$0.90**	$1.69	$2.00
Net earnings ($000)	**10,897**	10,350	15,047
Net earnings – per share			
– Basic	**$0.80**	$0.77	$1.12
– Fully-diluted	**$0.79**	$0.75	$1.10
Total assets ($000)	**286,280**	288,626	329,965
Total debt ($000)	**55,724**	75,893	98,312
Cash dividends declared – per share	**$0.00**	$0.00	$0.00

The following factors affect the comparability of the data in the above three-year summary of financial data:

2004

Income from continuing operations for fiscal 2004 was affected by a number of factors, as set out in the "Results of Operations" section of this report. The process of divesting Cotswold Swine Genetics (CSG), the Company's North American swine genetics business, proceeded according to plan in fiscal 2004 and was substantially complete by the end of the year. The net losses from the discontinued Cotswold operations of $1.5 million reduced the Company's earnings from continuing operations of $12.4 million to net earnings of $10.9 million for the year.

2003

On July 16, 2003, the Company announced its intention to divest CSG. The Company recorded an after-tax charge in fiscal 2003 of $9.2 million to reflect impairment of the CSG assets. The operating loss net of taxes for the discontinued CSG operations was $7.2 million. The Company recognized a tax benefit of $3.4 million as a result of amalgamating its wholly-owned Cotswold Canada subsidiary with Ridley. The net losses from the discontinued Cotswold operations of $13.0 million reduced the Company's earnings from continuing operations of $23.3 million to net earnings of $10.4 million for the year.

2002

On May 10, 2002, Ridley sold its European swine breeding and genetics business (Cotswold U.K.), with operations in the United Kingdom and Germany. The transaction resulted in a loss of $5.9 million for Ridley. The discontinued operations of Cotswold U.K. had lost $4.3 million to the date of disposition. The operations of CSG in North America, which were discontinued at the end of fiscal 2003, reported an after-tax loss of $2.1 million in fiscal 2002. The earnings from continuing operations of $27.4 million were thus reduced to net earnings of $15.0 million for the year.

Ridley's fiscal 2002 earnings from continuing operations include a claim settlement received from suppliers in Canada, resulting in a gain of $3.0 million.

Quarterly Segment Results Fiscal 2004

	30 Jun 04 ($000)	31 Mar 04 ($000)	31 Dec 03 ($000)	30 Sep 03 ($000)	Fiscal 2004 ($000)
Revenue					
Canadian Division	42,306	40,461	45,202	41,077	169,046
U.S. Division	105,694	112,419	119,240	103,409	440,762
Total revenue	148,000	152,880	164,442	144,486	609,808
Operating income					
Canadian Division	746	2,170	3,014	1,648	7,578
U.S. Division	2,646	1,980	8,881	6,426	19,933
Unallocated	(803)	(1,011)	(1,043)	(1,080)	(3,937)
Total operating income	2,589	3,139	10,852	6,994	23,574
Net income from continuing operations	1,500	1,352	5,979	3,597	12,428
Loss from discontinued operations	345	(783)	(933)	(160)	(1,531)
Net income	1,845	569	5,046	3,437	10,897
Earnings per share from continuing operations					
– Basic	0.11	0.10	0.44	0.26	0.91
– Fully diluted	0.11	0.09	0.44	0.26	0.90
Net earnings per share					
– Basic	0.14	0.04	0.37	0.25	0.80
– Fully diluted	0.14	0.03	0.37	0.25	0.79

Quarterly Segment Results Fiscal 2003

	30 Jun 03 ($000)	31 Mar 03 ($000)	31 Dec 02 ($000)	30 Sep 02 ($000)	Fiscal 2003 ($000)
Revenue					
Canadian Division	44,758	46,189	49,178	44,866	184,991
U.S. Division	93,097	117,400	147,661	121,411	479,569
Total revenue	137,855	163,589	196,839	166,277	664,560
Operating income					
Canadian Division	2,883	2,602	3,143	1,884	10,512
U.S. Division	1,670	9,025	16,656	9,661	37,012
Unallocated	(1,138)	(1,240)	(1,311)	(1,223)	(4,912)
Total operating income	3,415	10,387	18,488	10,322	42,612
Net income from continuing operations	1,747	5,503	10,479	5,613	23,342
Loss from discontinued operations	(8,451)	(1,462)	(1,985)	(1,094)	(12,992)
Net income	(6,704)	4,041	8,494	4,519	10,350
Earnings per share from continuing operations					
– Basic	0.13	0.40	0.78	0.42	1.73
– Fully diluted	0.12	0.40	0.76	0.41	1.69
Net earnings per share					
– Basic	(0.50)	0.30	0.63	0.34	0.77
– Fully diluted	(0.49)	0.29	0.62	0.33	0.75

Fourth Quarter Results

Sales revenues increased 7.3% to $148.0 million compared to $137.9 million in the fourth quarter of fiscal 2003. Sales dollars are not necessarily indicative of the strength of Ridley's financial performance because fluctuating commodities prices can influence revenues. This past fiscal quarter demonstrates this effect. Sharply higher commodity prices for feed ingredients during the past three months have driven revenue dollars upward. However, during this time frame, actual production volumes have declined from the prior year levels.

Gross profit levels of $23.7 million in the fiscal 2004 fourth quarter compared with $27.1 million in the same period of fiscal 2003 reflect two factors. Firstly, feed sales volumes were lower, and secondly, the reduced manufacturing activity affected plant utilization. The impact of fixed manufacturing costs on lower production decreases gross profit percentages. Higher commodity prices are included both in sales revenue and cost of sales.

Operating expenses in the fourth quarter of fiscal 2003 include a $4.0 million provision for an impaired loan receivable from a significant swine customer.

Ridley's lower levels of bank debt reduced interest expense in the fourth quarter of fiscal 2004. Income tax rate percentages are impacted by deductions or additions to taxable income remaining relatively fixed but the pre-tax income base is lower than usual. Additionally, favorable accrual adjustments were recorded in the fourth quarter of 2004.

The discontinued operations of CSG produced a minimal profit in the fourth quarter of the current fiscal year. In the same period of fiscal 2003, quarterly results reflect a net loss of $8.5 million. The loss includes an after-tax charge to asset impairments of $9.2 million, a $3.4 million tax benefit recognized on amalgamation of Ridley Inc. and its Cotswold Canada Ltd. subsidiary, and an after-tax operating loss of $2.7 million.

The Company's net income of $1.8 million in the fourth quarter of fiscal 2004 ($0.14 per diluted share) compares to a loss of $6.7 million ($0.49 loss per diluted share) in fiscal 2003.

Liquidity

Ridley's consolidated balance sheet at June 30, 2004, together with comparative final 2003 and 2002 figures, is summarized as follows:

	Balances as of June 30		
	2004 ($000)	**2003** ($000)	**2002** ($000)
Current assets	**100,587**	98,789	113,942
Current liabilities	**67,898**	61,574	79,312
Working capital	**32,689**	37,215	34,630
Property, plant and equipment	**116,534**	112,912	121,749
Goodwill	**57,875**	57,057	60,187
Other non-current assets	**11,284**	19,868	34,087
Long lived assets	**185,693**	189,837	216,023
Long-term portion of debt	**36,574**	60,075	80,743
Future tax liability	**34,396**	30,284	31,534
Other long-term liabilities	**5,111**	4,941	5,797
Long-term liabilities	**76,081**	95,300	118,074
Equity	**142,301**	131,752	132,579

The debt to equity relationship as of June 30, 2002 through 2004 is summarized below:

	2004 ($000)	2003 ($000)	2002 ($000)
Debt defined as bank obligations and capital leases	**55,724**	75,893	98,312
Equity	**142,301**	131,752	132,579
Debt to equity	**39%**	58%	74%

The change in cash balances, including discontinued operations for the twelve months ending June 30 for the following fiscal years is summarized below:

	2004 ($000)	2003 ($000)	2002 ($000)
Provided from operations before working capital requirements	**26,559**	36,473	40,799
Provided from (used for) working capital requirements	**6,155**	(11,721)	4,113
Provided from operations	**32,714**	24,752	44,912
Net utilized for investing activities	**(9,257)**	(11,388)	(1,595)
Net from (repayment of) debt and financing activities	**(19,234)**	(14,263)	(45,232)
Effect of exchange rate changes on cash	**(27)**	(125)	(85)
Increase (decrease) in cash balances	**4,196**	(1,024)	(2,000)

The Company has consistently generated cash from operations over the past three years, allowing for significant debt repayments. The debt to equity ratio is currently at 39%; this is nearly one-half the level from fiscal 2002 year-end. During fiscal 2002, capital expenditures and business acquisitions were lower than normal, and were nearly offset by significant reductions in customer loans and proceeds from sale of capital assets. Fiscal 2003 and 2004 reflect more typical investing levels, as capital expenditures each year were approximately $10.0 million and each year included a small business acquisition. Cash proceeds in fiscal 2004 include $4.8 million on the sale of the capital assets associated with discontinued operations. Offsetting a large portion of these proceeds were losses and contract settlements associated with the discontinued operations.

The Company's major borrowing capabilities are covered under a global banking agreement with a syndicate of five international banks. At June 30, 2004, the borrowing limit under this agreement was $109.0 million; this is $59.0 million above the outstanding debt level associated with the facility. The Company is positioned to fund acquisitions through standard debt facilities.

Working capital, exclusive of all future tax benefits/liabilities and debt, as of June 30, 2002 through 2004 is summarized below:

	2004 ($000)	2003 ($000)	2002 ($000)
Current assets	**94,367**	95,179	113,651
Current liabilities, excluding current debt	**48,748**	45,756	61,552
Working capital excluding current debt	**45,619**	49,423	52,099

Working capital excluding current debt reflects the Company's position in maintaining operating activities. The level of working capital to support business activity has remained flat. The decrease in assets and liabilities from the levels in 2002 is due primarily to liquidating discontinued operations. Two additional feed mills acquired after June 2002 have increased working capital balances.

Contractual Obligations

The following table summarizes the Company's obligations to make future payment on long-term debt, lease obligations and other obligations at June 30, 2004, as well as expected timing of the payments.

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**2-3 Years**	**4-5 Years**	**After 6 Years**
Debt	54,964	18,946	35,975	43	–
Capital leases	760	204	210	346	–
Operating leases	8,474	2,535	3,430	724	1,785
Purchase contracts	13,130	13,130	–	–	–

Capital Resources

Capital asset expenditures during the year were $10.0 million, compared with $9.9 million in 2003. During 2004, $2.7 million was spent on new business opportunities and $0.7 million for profit improvement projects. The balance of the expenditures was to support ongoing operations. New business and profit improvement projects are prioritized based on discounted rate of return analysis that exceed the Company's targets.

Ridley expects to spend its historical average of approximately $8.0 million during fiscal 2005 to support ongoing operations and $4.0 million for projects that support the strategic plan and meet return criteria. All capital projects during fiscal 2005 are expected to be funded from operating cash flow.

Risk Management

The Company's businesses are subject to a number of risk factors including: commodity prices, hog prices, interest rate and foreign currency volatility, customer credit performance, weather conditions, environmental regulations, and the loss of facilities and inventories from fire and other perils. The Company mitigates these risks through a variety of methods. A risk management department has taken on a higher profile over the last two years for this strategically important area of the Company. Significant progress was made during the past year identifying risks, taking corrective actions, and encouraging a more proactive approach in the Company's manufacturing facilities to make risk management a high priority.

Environment

Ridley has a comprehensive program to oversee environmental, crisis management, and health and safety matters. Management has concluded, based on existing information and applicable laws and regulations, that the amounts expended or anticipated to be expended by the Company on these matters, other than as specifically provided for, are not likely to be material to Ridley's operations or financial condition. Management is unaware of any instance of non-compliance with environmental laws and regulations that is not already being responsibly addressed.

Commodity Prices

Commodity grains and protein meals constitute a significant component of the Company's complete feed production. Complete feed is sold through either spot orders, or through longer-term, fixed-price sales contracts. In order to meet short-term production requirements, the Company maintains inventories of grains and protein meals to meet production requirements.

The grains and protein meals market is such that the Company is subject to a risk of movement in price between the time that grains and protein meals are purchased and the time they are sold as part of a feed product. The Company is subject to a risk of movement in price between the time that the commodities are sold as part of a feed product through long-term supply contracts and the time they are purchased to fulfill the contract.

The Company mitigates its exposure to commodity price risk to the extent practicable through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and hedging on regulated futures and options markets. The degree to which the Company remains at risk at any time due to an incomplete hedge, however, poses no material risk to the Company's earnings.

Seasonality and Weather Conditions

The beef cattle feed segment of the Company's business is seasonal, with a higher percentage of feed sold and earnings generated during the second and third fiscal quarters. This seasonality is driven largely by weather conditions. If the weather is particularly cold during the winter, sales of cattle feed increase as compared with normal seasonal patterns, because the cattle are unable to graze under those conditions and have high energy requirements. If the weather is relatively warm during the winter, sales of cattle feed may decrease as compared with normal seasonal patterns, because the cattle are better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

The Company attempts to mitigate the risk associated with abnormal weather patterns by marketing a diversified product line which, besides beef cattle feed, includes feed for other livestock (dairy cattle, hogs, poultry, horses, sheep, etc.). It also mitigates this risk by geographically distributing its operations and hence, the market for its products. As a result, regional variations in weather impact only a portion of the Company's earnings at any one time.

Interest Rates

The Company finances a portion of its business through the use of several long-term variable rate credit facilities, which exposes the Company to some risk of loss as a result of interest rate movement.

The Company has implemented a strategy to hedge interest rates on a significant portion of the total bank debt outstanding at any time. This strategy may utilize several hedging instruments, but primarily involves the use of interest rate swaps. At June 30, 2004, 85% of the Company's outstanding bank debt was hedged, using interest rate swaps with a variety of maturity dates extending for up to one and one-half years.

Foreign Exchange

The Company's Canadian Division makes some purchases and sales denominated in U.S. dollars. The Division is currently a net seller of U.S. dollars. The Company manages the risk associated with holding U.S. currency by monitoring its net position and entering into forward exchange contracts where warranted for individually material transactions or the net position. At times, the Company maintains inter-company loans between the U.S. and Canadian operations. Forward exchange contracts are used to hedge fluctuations in foreign currency translation rates.

The Company's U.S. Division is considered to be self-sustaining. There are no material transactions denominated in currencies other than U.S. dollars. Consequently, no hedging tools are employed by this operation.

Credit

The Company is subject to potential credit risk in the event of non-performance by its customers. This risk is minimized by a number of factors. The Company deals with a large customer base, consisting of both individuals and corporations, with no single customer representing more than 2% of the Company's total gross sales. The Company's customer base is geographically dispersed and comprised of livestock producers representing several different livestock species. This tends to minimize the risk posed to the Company by economic downturns that are either species or regionally based.

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender.

Insurance

The Company has significant investments in manufacturing and distribution facilities and inventory, and is subject to the risk of loss or impairment of earnings as a result of the partial or complete destruction of one or more of these facilities.

The Company manages this risk in several ways. First, the Company's facilities are geographically distributed across the continental U.S. and Canada. The risk of multiple facilities being lost as a result of a single peril is, therefore, minimized. Second, regular inspections of the Company's facilities are conducted by both management and representatives of the Company's insurance carrier, in order to minimize potential safety hazards. Finally, the Company maintains insurance coverage sufficient to cover any foreseeable material loss. A very tight insurance market over the last two years forced the Company to pay higher premium costs.

Critical Accounting Estimates

The Company does not have estimates included in the financial statements that meet the criteria described as critical accounting estimates and has made no changes from the prior year.

Impact of New Accounting Pronouncements

On July 1, 2003, the Company adopted Canadian Institute of Chartered Accountants (CICA) Accounting Guideline (AcG 13), *Hedging Relationships*. This establishes certain conditions when hedge accounting may be applied. Under the new guideline, the Company is required to document its hedging transactions and demonstrate that the hedges are effective in order to use hedge accounting. Concurrent with the adoption of AcG 13, the Company adopted the Emerging Issues Committee ("EIC") abstract 128 – *Accounting for Trading, Speculative, or Non-Hedging Derivative Financial Instruments*. Derivative financial instruments that do not qualify for hedge accounting or are entered into for trading or speculative purposes are required to be measured at fair value; changes in fair value are recognized in income. The adoption of these guidelines did not have any material effect on the consolidated financial statements.

On July 1, 2003, the Company adopted CICA Section 3063, *Impairment of Long-Lived Assets*. This pronouncement requires the recognition of an impairment loss for a long-lived asset (that is held and used) when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of an asset over its fair value. It replaces the impairment provision in Section 3061, *Property, Plant and Equipment*. The adoption of this standard did not have any material effect on the consolidated financial statements.

Effective June 30, 2004, the Company adopted new disclosure requirements for pensions and other employee future benefits as outlined in CICA section 3461. The new required disclosures include items such as a narrative description of each type of plan, the measurement date of the plan asset and liability, the effective date of the last actuarial evaluation, and the detail of the plan asset by major category.

Future Changes in Accounting Standards and Reporting

The Company will be adopting new or revised pronouncements and guidelines as issued by the CICA. These changes include the following:

CICA Section 1100 – *Generally Accepted Accounting Principles*. This pronouncement establishes standards for financial reporting in accordance with Canadian Generally Accepted Accounting Principles (GAAP). It describes what constitutes GAAP and its source. The Company does not expect any significant impact on its consolidated financial statements with the adoption of this new Section on July 1, 2004.

CICA Section 1400 – *General Standards of Financial Statement Presentation*. This pronouncement clarifies what is fair presentation in accordance with GAAP and provides general guidance on financial presentation. The Company does not expect any significant impact on its consolidated financial statements with the adoption of this new Section on July 1, 2004.

CICA Section 3110 – *Accounting for Asset Retirement Obligations*. This pronouncement requires that the fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. An asset retirement obligation is a legal obligation associated with the retirement of a long-lived tangible asset. Presently, the Company has no such obligation.

Legal

The Company has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defense of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in the financial statements.

Acquisitions

The Company acquired the business and assets of Heartland, Inc., located in Bismarck, North Dakota, in August 2003. Previously, Hubbard Feeds and Heartland had been involved in a successful joint venture for ten years. The acquisition included Heartland's 50% interest in the joint venture, the feed mill, warehouse and retail farm supply outlet, as well as grain merchandising and birdseed packaging business. The total aggregate consideration for the acquisition was $6.0 million.

On August 1, 2002, the Company acquired 100% of Shamrock Feeds Ltd. for an aggregate consideration of $3.1 million. Shamrock Feeds Ltd., located in Saskatoon, Saskatchewan, manufactures a complete line of animal feeds and has been integrated into the Canadian feed operations.

Subsequent Event

Subsequent to June 30, 2004, the Company acquired the assets and livestock feed supplement business of Sweetlix, LLC for U.S.$16.7 million. The Sweetlix acquisition includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas. The Company now has the capability to manufacture Low Moisture Blocks, pressed blocks, poured blocks and bagged minerals for beef, dairy, equine, bison, wildlife, sheep and goats. Included in the acquisition are products with EPA and FDA approvals that will enhance the product line of Ridley Inc.

Forward Looking Information

Fiscal 2004 was a difficult year due to the weak production economics for several livestock species and external factors described throughout this report. Many of these issues will continue as we enter fiscal 2005. The current good prices for meat, milk and eggs usually translate to expansion by livestock producers and higher feed sales volumes generally follow. The question will be that of timing, but current conditions suggest a slow start in the first quarter of fiscal 2005. The other factors carrying over which will create some uncertainty will be the relative strength or weakness of the U.S. dollar, the potential for higher interest rates, a possible anti-dumping duty on Canadian hogs exported to the U.S., the impact of the BSE incidents and current border closing to live animals, and other disease issues such as avian influenza.

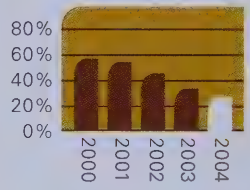
While the current conditions would cause us to be cautious entering the new year, there are a number of positive developments within the Company that provide for optimism. We are coming off a year where we experienced some unusual charges for bad debts that we do not expect to repeat. The feed operations are showing success with new volume, maintaining margin levels, and will continue with the cost containment efforts started last year that will provide benefit for the future. The block operations believe the cattle economy will remain strong and new product introductions will provide additional earnings for the new fiscal year. The recently announced Sweetlix acquisition will have a positive impact on the new year and provide stability and strong market share for the future. We expect to see significant earnings improvement for both divisions for fiscal 2005. This will allow the Company to utilize its strong operating cash flows to pay off debt relating to the new acquisition.

Financial Reporting in Fiscal 2005

Due to the acquisition of Sweetlix in July 2004 and the recent organizational changes, new segment reporting will be put in place for the new year. A segment called "Ridley Nutrition Solutions" consisting of the block operations, equine, and specialty products will be reported separately due to the scope of the operations and the way the businesses will be managed. The other segment of the Company will be Ridley Feed Operations, consisting of both the U.S. and Canadian feed operations that are now managed as one business. This will provide a better picture of where profits are being generated within the Company. The Company will also begin reporting in U.S. dollars as a significant portion of the Company's operations are conducted in U.S. dollars. This reduces the impact of exchange rate changes on the Company's reported earnings.

EARNINGS PER DILUTED SHARE

DEBT TO TOTAL CAPITALIZATION



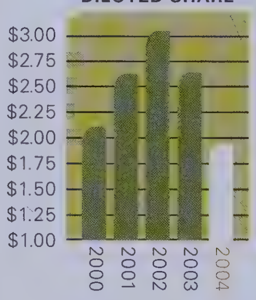
Forward Looking

This report contains "forward-looking" information within the meaning of the federal securities laws. The forward-looking information includes statements concerning the Company's outlook for the future, as well as other statements of beliefs, future plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations, the availability and prices of raw materials and supplies, livestock disease, product pricing, the competitive environment and related market conditions, operating efficiencies, access to capital, the cost of compliance with environmental and health standards, adverse results from ongoing litigation and actions of domestic and foreign governments.

Other

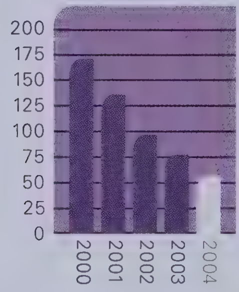
Additional information relating to Ridley Inc., including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com, or on Ridley's web site at www.ridleyinc.com.

CASH FLOW* PER DILUTED SHARE

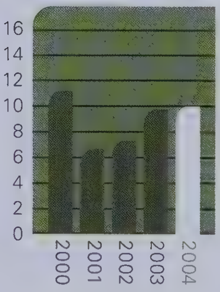


* Cash flow generated from operations before changes in non-cash working capital.

BANK DEBT
($ millions)



CAPITAL SPENDING
($ millions)



RIDLEY Inc.

Consolidated Financial Statements

Table of Contents

Management Report

The accompanying consolidated financial statements of Ridley Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's estimates and judgements. The financial information presented throughout the annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that assets are safeguarded and that the financial records are accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside, unrelated directors. The Committee meets with management, as well as external auditors, on a regular basis throughout the year to review internal accounting controls, audit results and other financial reporting issues. In addition, the Audit Committee considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors and reviews the consolidated financial statements with management and the external auditors prior to recommending their approval by the Board.

The consolidated financial statements as of June 30, 2004 and 2003 for the years then ended have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

R.B. Gallaway
President & Chief Executive Officer

Michael Mitchell

M.S. Mitchell
Chief Financial Officer

August 6, 2004

Auditors' Report

To the Shareholders of Ridley Inc.

We have audited the consolidated balance sheets of Ridley Inc. as of June 30, 2004 and 2003 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Winnipeg, Canada
August 6, 2004

Consolidated Balance Sheets

(expressed in thousands of dollars)

	As Of June 30	
	2004 ($000)	**2003** ($000)
Assets		
Current Assets		
Cash and short-term deposits	**4,717**	873
Accounts receivable	**34,814**	36,289
Inventories *(Note 6)*	**45,872**	42,226
Income taxes recoverable	**–**	3,354
Prepaids and other current assets	**2,042**	1,821
Current portion of loans receivable *(Note 7)*	**5,146**	6,073
Current assets of discontinued operations *(Note 4)*	**1,776**	4,543
Future tax benefit *(Note 16)*	**6,220**	3,610
	100,587	98,789
Loans receivable, less current portion *(Note 7)*	**5,518**	12,023
Investments	**186**	414
Property, plant and equipment *(Note 8)*	**116,534**	112,912
Other assets	**2,330**	2,423
Goodwill	**57,875**	57,057
Non-current assets of discontinued operations *(Note 4)*	**3,250**	5,008
	286,280	288,626
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**44,947**	44,118
Income taxes payable	**1,686**	–
Short-term debt *(Note 9)*	**3,402**	2,680
Current portion of long-term debt *(Note 10)*	**15,748**	13,138
Current liabilities of discontinued operations *(Note 4)*	**2,115**	1,638
	67,898	61,574
Long-term debt, less current portion *(Note 10)*	**36,574**	60,075
Future income tax liability *(Note 16)*	**34,396**	30,284
Pensions and post-retirement benefits *(Note 11)*	**4,620**	4,569
Minority interest	**491**	372
	143,979	156,874
Shareholders' Equity		
Share capital *(Note 12)*	**84,368**	83,912
Cumulative foreign currency translation adjustment *(Note 13)*	**(11,607)**	(10,803)
Retained earnings	**69,540**	58,643
	142,301	131,752
	286,280	288,626

The accompanying notes constitute an integral part of the consolidated financial statements.

Approved by the Board of Directors

J.S. Keniry, Director

M.P. Bickford-Smith, Director

Consolidated Statements of Earnings and Retained Earnings

(expressed in thousands of dollars)

	Year Ended June 30	
	2004 ($000)	**2003** ($000)
Revenue	**609,808**	664,560
Cost of sales	**493,857**	**530,000**
Gross profit	**115,951**	**134,560**
Operating expenses		
Selling, general and administrative	**80,608**	79,690
Amortization of property, plant and equipment	**9,800**	10,158
Research and development	**1,308**	1,059
Other amortization	**661**	1,041
	92,377	91,948
Operating income	**23,574**	42,612
Interest expense	**5,138**	6,662
Loss on sale of investment	**–**	684
Other income, net	**(1,245)**	(1,873)
Earnings before income taxes	**19,681**	37,139
Provision for income taxes *(Note 16)*	**7,139**	13,692
Minority share of net earnings	**114**	105
Net earnings from continuing operations	**12,428**	23,342
Loss from discontinued operations *(Note 4)*	**(1,531)**	(12,992)
Net earnings	**10,897**	10,350
Retained earnings, beginning of period	**58,643**	48,293
Retained earnings, end of period	**69,540**	58,643
Earnings per share from continuing operations		
– Basic	**0.91**	1.73
– Diluted	**0.90**	1.69
Net earnings per share		
– Basic	**0.80**	0.77
– Diluted	**0.79**	0.75

The accompanying notes constitute an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(expressed in thousands of dollars)

	Year Ended June 30	
	2004 ($000)	**2003** ($000)
Cash from (utilized for)		
Operating Activities		
Net earnings for the period	**10,897**	10,350
Items not affecting cash *(Note 17)*	**15,662**	26,123
	26,559	36,473
Net change in non-cash working capital balances related to operations:		
Accounts receivable	**3,474**	8,125
Inventories	**(974)**	(939)
Prepaid expenses	**(272)**	34
Accounts payable, accruals and other liabilities	**(901)**	(16,794)
Income taxes payable (recoverable)	**4,828**	(2,147)
Net cash from operating activities	**32,714**	24,752
Investing Activities		
Proceeds on disposal of property, plant and equipment	**630**	618
Proceeds on liquidated assets *(Note 4)*	**4,823**	–
Business acquisitions *(Note 5)*	**(5,987)**	(3,133)
Purchase of property, plant and equipment and investments	**(10,003)**	(9,872)
Decrease in loans receivable	**1,280**	999
Net cash utilized for investing activities	**(9,257)**	(11,388)
Financing Activities		
Repayment of short- and long-term debt	**(46,887)**	(43,235)
Proceeds from short- and long-term debt	**27,326**	27,158
Payment of finance costs	**(129)**	–
Issuance of share capital	**456**	1,814
Net cash utilized for financing activities	**(19,234)**	(14,263)
Effect of exchange rate changes on cash	**(27)**	(125)
Increase (decrease) in cash and short-term deposits	**4,196**	(1,024)
Net cash and short-term deposits – beginning	**926**	1,950
Net cash and short-term deposits – end	**5,122**	926
Cash of discontinued operations *(Note 4)*	**(405)**	(53)
Net cash and short-term deposits	**4,717**	873

The accompanying notes constitute an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2004

1. Significant accounting policies and basis of presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which require Ridley Inc. ("the Company") to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates. All amounts are in Canadian dollars unless otherwise specified.

Basis of consolidation

These consolidated financial statements include the assets and liabilities and results of operations of the Company and all controlled entities.

Revenue recognition

Revenues from the sale of livestock feed, animal health supplies, and farm supplies are recognized upon shipment from the mill or facility. Revenues from the sale of livestock are recognized at the time of delivery.

Cash and short-term deposits

Cash and short-term deposits consist of cash and temporary investments with maturities of three months or less when purchased.

Inventories

Inventories include raw materials and finished goods. Significant portions of inventories consist of commodities. Inventories are recorded at the lower of weighted average cost and net realizable value. Net realizable value is based on valuing the ingredient component at current market prices and deducting costs of realization.

Impaired loans

The Company makes an allowance for doubtful loans to reduce the carrying value of loans identified as impaired to their estimated realizable amount. Loans are considered impaired if, in management's view, collection is unlikely. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting the cost of realization.

Investments

Investments represent investments in non-related corporations and are accounted for at cost.

Property, plant and equipment and amortization

Property, plant and equipment are recorded at historical cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Buildings	40 years
Machinery and equipment	10-30 years
Computer equipment	3-5 years
Furniture and fixtures	10 years
Trucks, trailers and automobiles	5-10 years
Leasehold improvements	Term of the lease

Goodwill

Goodwill represents the excess of the acquisition costs of investments in subsidiaries over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is not amortized but is subject to a fair value impairment test on at least an annual basis. Any impairment of goodwill is recognized as an expense in the period of impairment.

Other assets

Other assets include deferred financing and start-up costs that are recorded at cost. Amortization of deferred financing costs is provided on a straight-line basis over the term of the related debt. Amortization of start-up costs is provided on a straight-line basis over periods of up to five years.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using the enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the period in which the rate change occurs. When necessary, a valuation allowance is recorded to reduce future income tax assets to an estimated realizable amount that more likely than not will be realized.

Foreign operations
The accounts of self-sustaining foreign subsidiary companies are translated into Canadian dollars on the following basis:

- assets and liabilities at the exchange rate prevailing at the balance sheet date; and
- revenue and expenses at weighted average exchange rates for the year.

Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these foreign operations is realized. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

Foreign currency transactions and balances
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Exchange differences on these items are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

Financial instruments and hedging relationships
Derivative financial instruments that are designated as hedges and are effective as hedges of existing assets, liabilities or anticipated transactions ("hedged items") are accounted for on the same basis as the hedged items. Derivative financial instruments are not recognized in the financial statements at inception.

The Company manages its exposure to changes in interest rates, ingredient prices, and foreign exchange rates through the use of derivative financial instruments. The company does not use derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effectiveness of the relevant hedge relationships is assessed at least quarterly to ensure they are and will continue to be effective.

Realized and unrealized gains or losses associated with derivative instruments used in a hedging relationship, that have been terminated or cease to be effective prior to maturity are deferred and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any deferred amount related to the derivative instrument is recognized in earnings.

Derivative financial instruments that do not qualify for hedge accounting are recognized in the balance sheet and measured at fair value, with changes in fair value recognized in earnings.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Derivatives such as future contracts, put options and similar instruments are used to manage the prices on commodities such as corn, soy meal, grains, molasses and other proteins used in the production of animal feeds. The hedging activity is limited to the volume of commodities used in manufactured products that are supported by a firm sales commitment.

The Company hedges its foreign currency exposures on foreign currency denominated intercompany debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. Corresponding translation losses and gains on the related foreign currency denominated debt offset translation gains and losses on the forward exchange contracts.

Other income
Other income consists primarily of interest on loans and advances made to third parties with which the Company has trading relationships, interest on overdue accounts receivable, and gains and losses on residual investments.

Employee future benefits
The Company maintains both defined benefit and defined contribution pension plans. The Company accrues its obligations for employee pension plans and the related costs, net of plan assets. The cost of pensions is actuarially determined using the projected benefits method calculated based on employee service, salary escalation and retirement age, together with the expected return on plan assets. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 12.2 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The Company provides health care benefits for eligible retired employees and their covered dependants. The Company accrues for these benefits over the period in which employees provide service to the date of their first eligibility for such benefits. The amount of the obligation is based on actuarial valuations.

Earnings per share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the year.

The dilutive effect of outstanding stock options on earnings per share is based on the application of the treasury stock method. Under this method, the proceeds from the potential exercise of such stock options are assumed to be used to purchase common shares.

Stock option plan

The Company has a stock option plan that is described in Note 12. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. The Company last issued new stock options on November 6, 2000.

2. Recently adopted accounting standards

Impairment of long-lived assets

On July 1, 2003, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3063, *Impairment of Long-Lived Assets,* which requires the recognition of an impairment loss for a long-lived asset to be held and used when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any is determined as the excess of the carrying value of the assets over its fair value. It replaces the impairment provision in *Section 3061, Property, Plant and Equipment.* The adoption of this standard did not have any material effect on consolidated financial statements.

Hedging relationships

On July 1, 2003, the Company adopted CICA Accounting Guideline (AcG 13), *Hedging Relationships,* which establishes certain conditions when hedge accounting may be applied. Under the new guideline, the Company is required to document its hedging transactions and demonstrate that the hedges are effective in order to use hedge accounting. The adoption of this standard did not have any material effect on consolidated financial statements.

Concurrent with the adoption of AcG 13, the Company adopted the Emerging Issues Committee ("EIC") abstract 128 – *Accounting for Trading, Speculative, or Non-Hedging Derivative Financial Instruments.* For derivative financial instruments that do not qualify for hedge accounting or are entered into for trading or speculative purposes, EIC 128 requires that these derivative financial instruments be measured at fair value, with changes in fair value recognized in income.

Employee future benefits

For the year ended June 30, 2004, the Company has adopted the new disclosure requirements for pensions and other employee future benefits. The new required disclosures include items such as a narrative description of each type of plan, the measurement date of the plan asset and liability, the effective date of the last actuarial evaluation, and the detail of the plan asset by major category.

3. Future changes in accounting standards and reporting

In fiscal 2005, the Company will adopt the following accounting policy changes:

- CICA 1100 – *Generally Accepted Accounting Principles.* CICA 1100 establishes standards for financial reporting in accordance with Canadian GAAP. It describes what constitutes Canadian GAAP and its source. The Company does not expect any significant impact on its consolidated financial statements with the adoption of this new Section on July 1, 2004.
- CICA 1400 – *General Standards of Financial Statement Presentation.* CICA 1400 clarifies what is fair presentation in accordance with Canadian GAAP and provides general guidance on financial presentation. The Company does not expect any significant impact on its consolidated financial statements with the adoption of this new Section on July 1, 2004.
- CICA 3110 – *Accounting for Asset Retirement Obligations.* This pronouncement requires that the fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. An asset retirement is a legal obligation associated with the retirement of a long-lived tangible asset. Presently, the Company has no such obligations.

In fiscal 2005, the Company will adopt the following reporting policy changes:

- Due to the pending acquisition of Sweetlix, LLC in July 2004 and the recent organizational changes, new segment reporting will be put in place for fiscal 2005. A segment called "Ridley Nutrition Solutions" consisting of the block operations, equine, and specialty products will be reported separately due to the scope of the operations and the way the businesses will be managed. The other segment of the Company will be Ridley Feed Operations, consisting of both the U.S. and Canadian feed operations that are now managed as one business. This will provide a better picture of where profits are being generated within the Company.

  The Company will begin reporting in U.S. dollars, as a significant portion of the Company's operations are conducted in U.S. dollars. This reduces the impact of exchange rate changes on the Company's reported earnings. The change in reporting currency will be effective for the reporting of the Company's results commencing in the first quarter of 2005. In accordance with Canadian GAAP, comparative financial information for all periods prior to fiscal 2005 will be restated and reported in U.S. dollars. Canadian GAAP requires that the restated financial statements for prior periods reflect results that would have been reported had the Company always reported in U.S. dollars.

4. Disposal of long-lived assets and discontinued operations

On September 23, 2003, the Company sold key assets of its North American swine genetics business (Cotswold Swine Genetics) to a genetics company for total consideration of $3,820,000. The Company committed to maintain certain swine production on a sub-contract basis for a period of one year. The remaining facilities were sold to various swine producers for total consideration of $514,000. After-tax losses of $1,221,000 were incurred in fiscal 2004. As of June 30, 2004, the remaining assets consist of accounts receivable and inventory required to complete the sub-contract commitment. Liabilities consist of accounts payable and contract loss provisions on the remaining livestock and production commitments. The wind-down is scheduled to be completed by September 30, 2004, with no further material losses expected. In fiscal 2003, the Company recorded a $9,174,000 after-tax charge to reflect impairments on related assets.

In fiscal 2002, the European swine breeding and genetics operation (Cotswold Pig Development Co. Limited) was sold. Subsequent to the sale, the purchaser notified the Company of potential warranty and indemnification claims. The relevant parties are in the early stages of negotiation in respect of these claims. Any ultimate settlement of these claims is not expected to have a material financial impact. Remaining assets and liabilities associated with this business include a deferred receivable and an employee pension obligation. The U.K. Pension Plan was closed upon divestiture, at which time the pension obligations exceeded fund assets. At June 30, 2004, this deficit was $494,000 (2003 - $432,000). The employee pension obligation is a reserve established to cover this deficit. Plan assets may fluctuate due to market conditions. During fiscal 2004, the remaining swine production facility was sold for total consideration of $489,000. After-tax losses of $310,000 were incurred in fiscal 2004.

The amalgamation of a wholly-owned Canadian subsidiary on June 30, 2003, enabled the Company to utilize the cumulative non-capital tax loss carry forwards in which a full valuation reserve had been taken. A tax benefit of $3,412,000 was recognized accordingly. The Canadian subsidiary is included in the discontinued operations and for that reason the tax benefit of $3,412,000 is reflected in the loss from discontinued operations.

The assets and liabilities of the discontinued operations are as follows:

	2004 ($000)	2003 ($000)
Assets		
Cash	**405**	53
Accounts receivable and other receivables	**416**	1,949
Inventories	**880**	2,504
Prepaids and other current assets	**75**	37
	1,776	4,543
Assets held for sale	**1,822**	3,851
Loans and deferred receivable	**1,428**	1,157
	3,250	5,008
	5,026	9,551
Accounts payable and accrued liabilities	**2,115**	1,638

The summarized operating results of the discontinued operations for fiscal years 2004 and 2003, to the date of disposal, are as follows:

	2004 ($000)	2003 ($000)
Revenue	**17,358**	20,716
Loss from discontinued operations		
Operating loss	**(1,760)**	(7,986)
Asset liquidation loss	**(555)**	–
Asset impairment	**–**	(11,711)
Loss before income tax	**(2,315)**	(19,697)
Income tax impact		
Income tax benefit on operating loss	**784**	756
Income tax benefit on impairment	**–**	2,537
Income tax benefit on amalgamation	**–**	3,412
Total income tax impact	**784**	6,705
Attributed to discontinued operations	**(1,531)**	(12,992)

	Year Ended June 30 2004	2003
Impact of discontinued operations on earnings per share:		
– Basic	**(0.11)**	(0.96)
– Diluted	**(0.11)**	(0.94)

The increase (decrease) in cash of discontinued operations is summarized below:

	2004 ($000)	2003 ($000)
Net cash utilized for operating activities	**(1,173)**	(9,086)
Net cash from (utilized for) investing activities	**4,817**	(48)
Net cash from (utilized for) financing activities	**(3,292)**	8,837
Increase (decrease) in cash of discontinued operations	**352**	(297)

5. Business acquisitions

On August 11, 2003, the Company acquired the assets and business of Heartland, Inc. (Heartland), located in Bismarck, North Dakota, for an aggregate consideration of $6.0 million. Heartland manufactures a complete line of animal feeds. Heartland and Hubbard Feeds were previously involved in a joint venture.

On August 1, 2002, the Company acquired 100% of Shamrock Feeds Ltd. for an aggregate consideration of $3.0 million. Shamrock Feeds Ltd., located in Saskatoon, Saskatchewan, manufactures a complete line of animal feeds and has been integrated into the Canadian Feed Operations.

On April 26, 2002, the Company purchased a 51% share in McCauley Bros., Inc., located in Versailles, Kentucky. In 2003, an additional $127,000 consideration was paid with respect to the McCauley Bros., Inc. acquisition.

These acquisitions were accounted for using the purchase method of accounting and accordingly, these consolidated financial statements include the results of operations of the acquired businesses from the dates of acquisition. Details of the net assets acquired on the basis of fair value, and the consideration given, were as follows:

	Heartland 2004 ($000)	Shamrock Feeds Ltd. 2003 ($000)
Assets		
Accounts receivable	**540**	612
Inventories	**1,584**	275
Prepaid expenses	**3**	12
Property, plant and equipment	**4,163**	1,559
Goodwill	**787**	2,070
	7,077	4,528
Liabilities		
Accounts payable and accrued liabilities	**1,090**	1,297
Future income taxes	**–**	225
	1,090	1,522
Consideration		
Cash	**5,987**	3,006

The goodwill associated with the Heartland acquisition is fully deductible for income tax purposes. Goodwill acquired in the purchase of Shamrock Feeds Ltd. is not deductible for income tax purposes.

Subsequent to June 30, 2004, the Company acquired the assets of the livestock feed supplement business of Sweetlix, LLC (Sweetlix) for an estimated U.S.$16.7 million. Sweetlix includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas.

6. Inventories

	2004 ($000)	2003 ($000)
Raw materials	**22,455**	21,685
Finished goods	**23,417**	20,541
	45,872	42,226

7. Loans receivable

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. The loans generally bear interest at rates between 4.00% and 10.00% with average terms of four years.

Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender. Current policy generally restricts the granting of loans in excess of U.S.$500,000 to any one customer.

Loans receivable are presented net of allowances for impaired loans. The total loans receivable balance before allowances, as of June 30, 2004, is $21,985,000 (2003 - $23,348,000).

The following schedule provides the activity through the allowance for impaired loans during the year:

	2004 ($000)	2003 ($000)
Balance – beginning of year	**5,252**	3,117
Impairment provisions, net of recoveries	**6,278**	3,409
Loans written off	**(49)**	(1,076)
Foreign currency translation	**(160)**	(198)
Balance – end of year	**11,321**	5,252

8. Property, plant and equipment

	2004		
	Cost ($000)	Accumulated amortization ($000)	Net book value ($000)
Land	6,629	–	6,629
Buildings	51,641	9,226	42,415
Machinery and equipment	92,208	34,796	57,412
Computer equipment	3,909	3,079	830
Furniture and fixtures	4,956	3,317	1,639
Trucks, trailers and automobiles	8,867	6,160	2,707
Leasehold improvements	916	321	595
Construction in progress	4,307	–	4,307
	173,433	56,899	116,534

	2003		
	Cost ($000)	Accumulated amortization ($000)	Net book value ($000)
Land	6,441	–	6,441
Buildings	48,328	7,572	40,756
Machinery and equipment	86,789	29,683	57,106
Computer equipment	3,721	2,919	802
Furniture and fixtures	4,079	2,672	1,407
Trucks, trailers and automobiles	8,945	5,788	3,157
Leasehold improvements	892	313	579
Construction in progress	2,664	–	2,664
	161,859	48,947	112,912

9. Short-term debt

	2004 ($000)	2003 ($000)
Unsecured open line of credit	–	673
Secured overdraft line of credit	3,402	2,007
Short-term debt	3,402	2,680

Unsecured open line of credit
The Company has an unsecured open line of credit authorized up to U.S.$2,000,000 (2003 - U.S.$1,500,000). The interest rate is based on the bank's prime rate. The interest rate, including applicable margin, was 3.25% during fiscal 2004. As of June 30, 2004, the line of credit was not being used (2003 - U.S.$500,000 outstanding).

Secured overdraft line of credit
The Company has a secured overdraft line of credit authorized up to $5,000,000. The interest rate is based on the bank's prime rate plus an applicable margin. The interest rates ranged from 4.00% to 5.25% during fiscal 2004. As of June 30, 2004, $3,402,000 (2003 - $2,007,000) was outstanding.

10. Long-term debt

	2004 ($000)	2003 ($000)
Term credit facilities	22,176	34,230
Revolving credit facilities	28,131	36,532
Other facilities and debt	1,255	1,564
Capital lease obligations	760	887
	52,322	73,213
Less current portion	15,748	13,138
Long-term debt	36,574	60,075

The Company has a North American loan note subscription agreement with a syndicate of five international banks. The agreement is subordinated and bound to the general loan facility held by its affiliate, Ridley Corporation Limited. As of June 30, 2004, the multi-currency facility totalled $109.4 million. Interest rates for loan notes issued under the Canadian facilities are based on the Canadian loan note rate. This rate is the weighted average of the annual rates quoted by the lenders under the loan note agreement. Interest rates for loan notes issued under the U.S. facilities are based on the London Inter-bank Offer Rate. A general security agreement over all property is maintained as collateral for the facility.

Term loan facilities

As of June 30, 2004, the term credit facilities consist of the following:

- A facility authorized up to $6,000,000 (2003 – $10,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the Canadian loan note rate.

  As of June 30, 2004, $6,000,000 (2003 – $10,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 3.34% (2003 – 4.32%).

- A facility authorized up to U.S.$12,000,000 (2003 – U.S.$18,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the London Inter-bank Offer Rate.

  As of June 30, 2004, U.S.$12,000,000 (2003 – U.S.$18,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 2.76% (2003 – 2.05%).

  The term credit facilities are repayable in quarterly principal installments commencing July 18, 2002, with a final payment of the balance of principal and interest due on October 18, 2005. The quarterly installments on the separate facilities are $1,000,000 and U.S.$2,000,000, respectively.

Revolving cash advance facilities

As of June 30, 2004, the revolving credit facilities consist of the following:

- A facility authorized up to $36,000,000 (2003 – $36,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the Canadian loan note rate.

  As of June 30, 2004, $16,000,000 (2003 – $10,000,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 3.34% (2003 – 4.40%).

- A facility authorized up to U.S.$38,000,000 (2003 – U.S.$38,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the London Inter-bank Offer Rate.

  As of June 30, 2004, U.S.$9,000,000 (2003 – U.S.$19,710,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 2.73% (2003 – 2.02%).

  The revolving credit facilities expire on October 18, 2007.

Other facilities and debt consist of:

A subsidiary has bank debt and notes payable of U.S.$931,000 as of June 30, 2004 (2003 – U.S.$1,162,000). The weighted average effective cost of borrowing, including applicable margin, was 5.34% (2003 – 6.18%).

Capital lease obligations

Capital lease obligations consist of the present value of payments related to specified leased transportation equipment, payable at various dates through fiscal 2009.

Summary of long-term debt and capital lease obligations

As of June 30, 2004, the aggregate amount of principal payments estimated in each of the next four fiscal years and thereafter was as follows:

	($000)
June 30, 2005	15,748
2006	15,139
2007	21,046
2008	150
Thereafter	239
Total	52,322

11. Pensions and post-retirement benefits

The Company has non-contributory defined benefit pension plans covering substantially all of its U.S. employees. Benefits for salaried employees are based on years of service and the employees' level of compensation during specified periods of employment. The plan covering hourly employees generally provides benefits of stated amounts for each year of service. The Company's funding policy is consistent with statutory regulations and equals the amount deducted for income tax purposes. Prior service costs are amortized over the average future service period of active plan participants. Plan assets include equity and fixed-income securities.

The Company provides post-retirement health care benefits for U.S. employees. These benefits are supplemental to statutory provided health care costs. Post-retirement life insurance benefits are provided for a limited period of time. The components of these expenses are not shown separately as they are not material. The costs of post-retirement health care and life insurance benefits are determined under the per capita claims cost method. Under this method, the Company's obligations are fully accrued by the date the employees attain full eligibility for such benefits. These plans are unfunded.

The Company measures its accrued benefit obligations (both pension and post-retirement health care) and fair value of plan assets for accounting purposes as of April 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was April 30, 2004, and the next required valuation will be April 30, 2005.

The change in the financial status of the pension plans and other post-retirement obligations and amounts recognized in the consolidated financial statements as of June 30, 2004 and 2003 are:

	Pension		Other benefits	
	2004 ($000)	**2003** ($000)	**2004** ($000)	**2003** ($000)
Accrued benefit obligation				
Balance at beginning of year	**19,681**	16,576	**5,304**	2,601
Current – service cost	**1,499**	1,365	**535**	399
Interest cost	**1,195**	1,181	**289**	230
Amendments	**349**	47	**–**	–
Actuarial (gain) loss	**(991)**	3,228	**(333)**	2,806
Benefits paid	**(409)**	(377)	**(447)**	(94)
Effect of foreign currency translation	**41**	(2,339)	**7**	(638)
Balance at end of year	**21,365**	19,681	**5,355**	5,304
Change in plan assets				
Fair value of plan assets at beginning of year	**11,144**	11,951	**–**	–
Actual return on plan assets	**2,359**	(1,516)	**–**	–
Employer contributions	**2,016**	2,402	**–**	–
Benefits paid	**(409)**	(377)	**–**	–
Effect of foreign currency translation	**27**	(1,315)	**–**	–
Fair value at end of year	**15,137**	11,145	**–**	–
Funded status – plan surplus (deficit)	**(6,228)**	(8,536)	**(5,355)**	(5,304)
Amortized net actuarial loss	**4,598**	6,779	**1,634**	2,058
Amortized prior service cost	**718**	418	**13**	16
Accrued benefit liabilities	**(912)**	(1,339)	**(3,708)**	(3,230)

The Company's net defined benefit plan expense is as follows:

	Pension		Other benefits	
	2004 ($000)	**2003** ($000)	**2004** ($000)	**2003** ($000)
Current service cost	**1,499**	1,365	**535**	399
Interest cost	**1,195**	1,181	**289**	230
Expected return on plan assets	**(1,285)**	(1,144)	**–**	–
Amortization of prior service cost	**51**	53	**71**	3
Amortization of net actuarial loss	**119**	23	**–**	–
Net defined benefit plan expense	**1,579**	1,478	**895**	632

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average actuarial assumptions as of June 30):

	Pension		Other benefits	
	2004	**2003**	**2004**	**2003**
Discount rate of funded status	**6.50%**	6.25%	**6.50%**	6.25%
Expected long-term return on plan assets	**9.00%**	9.00%	**–**	–
Rate of compensation increase	**3.00%**	4.00%	**–**	–
Health care cost trend rate			**8.50%**	8.50%
Decreasing to ultimate trend rate			**4.50%**	4.50%

For measurement purposes, it is anticipated that the health care cost trend will decrease from 8.50% in fiscal 2004 to 4.50% in fiscal 2012.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effect on cost components and benefit obligations:

	One percentage point	
	Increase ($000)	**Decrease** ($000)
Medical service cost and interest	211	(160)
Accumulated benefit obligation	1,200	(820)

Defined contribution plans

The Company also provides defined contribution plans for substantially all U.S. and Canadian employees. The Company's contributions amounted to $1,548,000 in 2004 and $1,571,000 in 2003.

As of June 30, 2004, approximately 51% (2003 – 100%) of all pension plan assets were invested in equity mutual funds and 49% (2003 – nil) in fixed income mutual funds. The pension plan has no direct investments in Ridley Inc. nor any of its affiliates.

12. Share capital

	2004 ($000)	**2003** ($000)
Authorized		
Unlimited number of common shares, no par value		
Issued and outstanding		
13,727,300 common shares (2003 - 13,660,100)	**84,368**	83,912

The number of shares issued increased during fiscal 2004 due to the exercise of stock options. As of June 30, 2004, Ridley Corporation Limited held 69.4% of Ridley Inc.'s common shares.

The following is a reconciliation of the basic and diluted shares outstanding as of June 30, 2004 and 2003:

	2004	**2003**
Shares outstanding – basic	**13,727,300**	13,660,100
Incremental shares related to outstanding stock options	**162,256**	270,991
Shares outstanding – diluted	**13,889,556**	13,931,091

Stock option plan

Under the terms of the Company's stock option plan, approved by shareholders at the Annual and Special Meeting of Shareholders on November 6, 1998, options to purchase common shares of the Company may be granted by the Board of Directors or the Compensation Committee of the Board, to directors, officers, employees and service providers of the Company or its affiliates or subsidiaries. The stock option plan provides that the aggregate number of common shares which may be reserved for issuance under the stock option plan cannot exceed 10% of the common shares of the Company then outstanding.

	2004 Number of options	2004 Weighted average exercise price $	2003 Number of options	2003 Weighted average exercise price $
Stock options outstanding – beginning of year	**500,400**	**7.24**	750,900	7.24
Changes pursuant to				
Options cancelled	**(4,100)**	**10.65**	–	–
Options exercised	**(67,200)**	**6.79**	(250,500)	7.24
Stock options outstanding – end of year	**429,100**	**7.27**	500,400	7.24

The following stock options to purchase common shares were outstanding as of June 30, 2004:

Date granted	Exercise price	Vesting date	Expiry date	Number Outstanding
Sept. 3, 1998	$10.65	Sept. 3, 2000	Sept. 3, 2004	127,500
Dec. 1, 1999	$6.50	Dec. 1, 2001	Dec.1, 2005	125,600
Nov. 6, 2000	$5.38	Nov. 6, 2002	Nov. 6, 2006	176,000
				429,100

All options are fully vested and are subject to the terms and conditions set out in the stock options agreement.

13. Cumulative foreign currency translation adjustment

The cumulative foreign currency translation adjustment account primarily reflects the net changes in the respective book values of the Company's investments in self-sustaining U.S. and U.K. operations due to exchange rate fluctuations since the respective dates of acquisition.

	2004 ($000)	2003 ($000)
Balance – beginning of year	**(10,803)**	2,188
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	**(804)**	(12,991)
Balance – end of year	**(11,607)**	(10,803)

14. Financial instruments

Fair value of financial instruments

The carrying value of the Company's recognized financial instruments, which include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt, approximate their fair value.

The fair value of loans and advances receivable is not determinable as replacement financing is not readily available in the market place.

Credit risk

The Company, in the normal course of business, is exposed to credit risk from its customers. The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable and loans receivable.

Accounts receivable are primarily short-term receivables from customers that arise in the normal course of business. The Company performs regular credit evaluations on all of its customers.

The five largest loan balances net of allowance for doubtful loans, comprise 37% (2003 – 52%) of the total loan portfolio.

The Company had advanced funds to a customer in 1999 and 2000 as part of a restructuring and expansion of the customer's operations. The loan was linked to a long-term feed supply contract. The customer has not been able to overcome its financial difficulties. The Company had recorded a reserve in fiscal 2003 to reflect the doubtful collectibility of the loan. In fiscal 2004 the Company increased its reserve to fully provide for the remaining exposure.

Interest rate risk

The Company enters into derivative financial instruments in order to hedge its risk against interest rate fluctuations. The Company has fixed its variable rate long-term borrowing obligations with the following outstanding interest rate swap agreements:

Notional amount	Interest rate	Term of agreement	Repricing Period
U.S.$10,000,000	4.34%	December 24, 2001 - December 24, 2004	3 months
U.S.$10,000,000	7.11%	December 24, 2001 - December 24, 2004	3 months
U.S.$10,000,000	2.60%	December 24, 2004 - December 24, 2005	3 months
C$20,000,000	5.56%	January 4, 2004 - January 4, 2005	3 months
C$10,000,000	5.56%	January 4, 2005 - January 4, 2006	3 months

The unrealized loss on these instruments is $1,394,000 as of June 30, 2004.

Foreign exchange risk

The Company at times enters into forward foreign exchange contracts to hedge future sales denominated in foreign currencies. The Company may enter into forward foreign exchange contracts to hedge intercompany loans denominated in foreign currencies. The terms of the foreign exchange contracts are less than one year. As of June 30, 2004, the Company had contracted to sell U.S.$2,000,000 at a Canadian equivalent of $2,694,000. Forward foreign exchange contracts are not significantly different from the face value. As of June 30, 2004, the unrealized loss on open forward foreign exchange contracts was $1,800.

Commodities risk

As of June 30, 2004, the Company had corn and soybean futures contracts at various positions at which a loss of U.S.$56,908 has been recorded. The terms of the commodity contracts are less than one year.

15. Commitments and contingencies

As of June 30, 2004, the Company was committed to making payments as follows:

	Operating leases ($000)	Producer agreements ($000)	Livestock purchase commitments ($000)
June 30, 2005	2,535	372	480
2006	2,038	264	–
2007	1,392	66	–
2008	535	–	–
2009	189	–	–
Thereafter	1,785	–	–

The Company leases vehicles, buildings, and office equipment. The total rent expense for fiscal 2004 was $3,359,000 (2003 - $4,092,000).

The Company contracts with third party producers pursuant to various swine production agreements, grow-out and feeding agreements. Under the terms of the agreements, livestock owned by the Company is managed and maintained in the producers' facilities, for which the Company pays the producer a management fee.

The Company contracts with third party producers pursuant to various livestock supply agreements. Under the terms of the agreements, livestock raised by the producer must be delivered to the Company at a specified price.

Guarantees

The Company has undertaken to guarantee the debts and obligations of a select group of customers or producers with their respective lending institutions (bank). The guarantees typically decline in amount according to the customer's repayment schedule. Failure on the part of the customer to make payment on a specified loan obligates the Company to make restitution to the bank for the amount guaranteed. Generally, the Company obtains a security interest on the customer's farm assets. This security is subordinated to the position held by the customer's bank. The following summarizes the Company's outstanding guarantees:

Guarantees of nine U.S. customers in aggregate of U.S.$400,000 secured by an equal amount of collateral, expected proceeds from collateral of U.S.$400,000, varying expiration dates up to November 2006. As part of the agreements, the customers must purchase their animal feed requirements from the Company.

Unsecured guarantees of two Canadian producers in aggregate of $325,000, varying expiration dates up to fiscal 2009.

A series of unsecured guarantees of one major U.S. swine producer, totalling U.S.$1,700,000, with varying expiration dates up to July 2010. The customer is required to purchase animal feed for the livestock maintained in the facilities associated with the guarantees.

Legal actions and other

The Company has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defense of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

16. Income taxes

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following reasons:

	2004 ($000)	2003 ($000)
Earnings before income taxes	**19,681**	37,139
Combined statutory tax rate	**37.4%**	38.2%
Tax payable based on statutory tax rate	**7,361**	14,187
Non-allowable expenses	**577**	673
Effect of income tax rate differences	**304**	354
Effect of foreign deductions	**(1,103)**	(1,522)
Provision for income taxes	**7,139**	13,692
Current	**6,266**	8,636
Future	**873**	5,056
	7,139	13,692

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2004 ($000)	2003 ($000)
Future income tax assets		
Accounts and loans receivable	**4,464**	1,748
Other assets	**217**	1,825
Liabilities	**2,118**	1,853
Non-capital losses carried forward	**3,905**	2,491
	10,704	7,917
Future income tax liabilities		
Property, plant and equipment	**(23,598)**	(21,553)
Goodwill and intangibles	**(10,737)**	(10,541)
Partnership income deferral	**(3,680)**	(1,907)
Deferred currency translation on debt	**(865)**	(590)
	(38,880)	(34,591)
Net future income tax liability	**(28,176)**	(26,674)
Comprised of:		
Current portion – tax benefit	**6,220**	3,610
Future portion – tax liability	**(34,396)**	(30,284)
	(28,176)	(26,674)

There are approximately $14,370,000 (2003 - $9,379,000) of tax loss carry-forwards arising from the discontinued North American swine genetics business. A valuation reserve has been established for potential expiration of a portion of these tax benefits. The following reflects the amounts and related expiration period.

Year of Expiry	Tax Loss ($000)	Tax Benefit ($000)
2006	373	134
2007	443	159
2008	890	320
2009	2,861	1,029
2010	4,811	1,730
2011	4,991	1,794
Gross	**14,370**	5,166
Valuation reserve		(1,261)
Net tax benefit		3,905

17. Statement of cash flow disclosures

	2004 ($000)	2003 ($000)
Earning items not affecting cash		
Amortization of property, plant and equipment	9,814	10,509
Future income taxes	871	345
Diminution in value of breeding stock	–	587
Gain on sale of liquidated assets	(2,118)	–
Loss on sale of property, plant and equipment	49	228
Loss on asset impairment (Note 4)	–	9,174
Loss on sale of investment	–	684
Loan impairments	6,278	3,409
Other items not affecting cash	99	(26)
Amortization	669	1,213
	15,662	26,123

The following amounts were paid on account of interest and taxes:

	2004 ($000)	2003 ($000)
Interest	5,151	6,915
Income taxes, net of refund	716	11,371

18. Segment information

The Company operates two segments that have been segregated on the basis of geographic regions.

The Canadian Division manufactures and distributes livestock feed to customers primarily in the prairie region. The products include a full range of complete feeds and supplements and are marketed directly to agricultural producers.

The U.S. Division manufactures and distributes livestock feed to customers primarily in the U.S. Midwest. The products include a full range of complete feeds and supplements, and are marketed through a dealership network as well as directly to agricultural producers.

The Company evaluates performance based on operating income. Operating income is defined as earnings before interest, taxes, goodwill amortization, and other unusual items.

An analysis of segment information is as follows:

	Canadian Division 2004 ($000)	Canadian Division 2003 ($000)	U.S. Division 2004 ($000)	U.S. Division 2003 ($000)	Unallocated 2004 ($000)	Unallocated 2003 ($000)	Total 2004 ($000)	Total 2003 ($000)
Revenue	**169,046**	184,991	**440,762**	479,569	**–**	–	**609,808**	664,560
Cost of sales	**138,994**	153,638	**354,863**	376,362	**–**	–	**493,857**	530,000
Gross profit	**30,052**	31,353	**85,899**	103,207	**–**	–	**115,951**	134,560
	17.8%	16.9%	**19.5%**	21.5%	**–**	–	**19.0%**	20.2%
Operating expenses								
Selling, G&A	**20,293**	18,674	**56,617**	56,477	**3,698**	4,539	**80,608**	79,690
Amortization	**2,171**	2,083	**8,051**	8,743	**239**	373	**10,461**	11,199
Research & development	**10**	84	**1,298**	975	**–**	–	**1,308**	1,059
	22,474	20,841	**65,966**	66,195	**3,937**	4,912	**92,377**	91,948
Operating income	**7,578**	10,512	**19,933**	37,012	**(3,937)**	(4,912)	**23,574**	42,612
Total assets – continuing operations	**84,047**	86,781	**190,287**	183,142	**6,920**	9,152	**281,254**	279,075
Property, plant and equipment & goodwill – continuing operations	**49,040**	49,691	**125,313**	120,278	**56**	–	**174,409**	169,969
Total assets – discontinued operations	**–**	–	**–**	–	**5,026**	9,551	**5,026**	9,551

Revenues, property, plant and equipment, and goodwill by geographic area are as follows:

	Revenue 2004 ($000)	Revenue 2003 ($000)	Property, plant and equipment & goodwill 2004 ($000)	Property, plant and equipment & goodwill 2003 ($000)
United States	**444,084**	485,820	**125,771**	120,792
Canada	**165,724**	178,740	**48,638**	49,177
Total	**609,808**	664,560	**174,409**	169,969

19. Reclassifications

Prior period amounts have been reclassified to conform to current year presentation. The reclassifications had no impact on net earnings or shareholders' equity as previously reported.

Ridley Inc. Corporate Directory

RIDLEY Inc.

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R.B. Gallaway,
President & C.E.O.

M.S. Mitchell,
Chief Financial Officer

J.D. Richardson,
Corporate Secretary

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56002-8500
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Bankers:

Bank One Corporation	Chicago, U.S.A. Winnipeg, Canada

Legal Counsel:

Borden Ladner Gervais LLP	Toronto, Canada
Dorsey & Whitney LLP	Minneapolis, U.S.A.
Pitblado	Winnipeg, Canada

Transfer Agent:

Computershare Trust Company of Canada — Toronto, Canada
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Telephone: (800) 564 6253
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President,
Ridley Feed Operations

Calvin Martin
V.P., Ridley Inc.
Chief Operating Officer,
Ridley Feed Operations

George "Eddie" Wells
V.P., Ridley Inc. and
Assistant Chief
Operating Officer,
Ridley Feed Operations

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General Manager,
Eastern Business Unit

Mark Nelson
General Manager,
East Central
Business Unit

Gary Kee
General Manager,
Central Business Unit

Werner Braun
General Manager,
North Central
Business Unit

Bob Revell
General Manager,
West Central
Business Unit

Kevin Levi
General Manager,
Western Business Unit

Denis Daudet
General Manager,
Alberta Business Unit

Al McKim
General Manager,
Saskatchewan
Business Unit

Jim Linaker
General Manager,
Manitoba/Daco
Business Unit

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Executive V.P., Ridley Inc.
General Manager,
Ridley Block Operations

Ridley Feed Ingredients

Mike Hudspith
General Manager,
Ridley Feed Ingredients
Business Unit

McCauley Bros., Inc.

Dr. D.B. Longmire
C.E.O.,
McCauley Bros., Inc.

Cotswold Swine Genetics

Steve VanRoekel
V.P., Cotswold Swine
Genetics

Company Information

For investment analyst inquiries, please contact our Chief Financial Officer at (507) 388 9410. For copies of annual and quarterly reports, annual information forms and other disclosure documents, please contact our Corporate Secretary at (204) 956 1717.

Financial Calendar 2004 – 2005*

Following are the anticipated dates on which the Company will announce its results of operations:

First quarter report to September 30	November 4, 2004
Second quarter report to December 31	February 14, 2005
Third quarter report to March 31	May 10, 2005
Year-end results to June 30	August 22, 2005

* Subject to change

Trading Symbol: RCL on The Toronto Stock Exchange

The following trade names are owned or licensed by Ridley Inc. and its subsidiaries: Ridley, Feed-Rite, Hubbard Feeds, Wayne Feeds, Ridley Feed Ingredients, Ridley Specialty Products, Ridley Block Operations, Daco Western Canada, Farmix, CRYSTALYX®, McCauley's®, Post Time®, Sweetlix®.

Corporate Web Sites

www.ridleyinc.com

www.hubbardfeeds.com

www.feedrite.com

www.crystalyx.com

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